

CITY OF MENOMINEE
MENOMINEE, MICHIGAN

ANNUAL FINANCIAL REPORT

JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Menominee	County Menominee
Audit Date 6/30/04	Opinion Date 10/15/04	Date Accountant Report Submitted to State: 12/15/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Accounting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

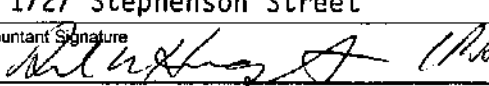
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Henquinet, Unger & Walters, S.C.			
Street Address 1727 Stephenson Street	City Marinette	State WI	ZIP 54143
Accountant Signature 		Date	

CITY OF MENOMINEE, MICHIGAN

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**ADDITIONAL INDEPENDENT AUDITOR'S REPORT FOR BASIC
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Menominee
Menominee, MI 49858

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Menominee, Michigan, ("the City") as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2004, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 60 through 62, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Henquinnet, Unger & Walters, S.C.
HENQUINET, UNGER & WALTERS, S.C.

Marinette, WI
October 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MENOMINEE

GEORGE W. KRAH, MAYOR

ANTHONY D. FURTON, CITY MANAGER

CITY HALL • 2511 10TH STREET • MENOMINEE, MICHIGAN 49858-1995 • PHONE (906) 863-2656 TDD (800) 649-3777

Management's Discussion and Analysis

As management of the City of Menominee, we offer readers of the City's financial statements this overview of the financial activities of the City of Menominee for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements, which begin on page 9. This audit represents the first issue of financial statements under the provisions of GASB Statement No. 34.

FINANCIAL HIGHLIGHTS

- The assets of the City of Menominee exceeded the liabilities as of June 30, 2004 by \$47,991,503 (net assets). Of this amount, \$6,055,454 were unrestricted net assets. The net assets for government activities were \$27,343,148 and for business-type activities \$20,648,355.
- The total net assets increased by \$207,905 during the fiscal year.
- The June 30, 2004 General Fund surplus was \$91,211 (prior to deducting transfer of \$577,258). The accumulated general fund balance is \$1,871,861 with \$170,961 reserved and \$1,700,900 unreserved. Of the unreserved fund balance, \$846,375 is designated and \$854,525 is undesignated, or approximately 18 percent of the anticipated general fund expenditures for 2004-2005 fiscal year.
- The General Obligation Debt decreased by \$1,065,875 during fiscal year 2004.
- The Library Bonds were refinanced during the 2004 fiscal year with additional principal paid and a more favorable interest rate.
- The Capital Assets increased by \$507,666 net of depreciation during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

1. Government-wide Financial Statements.

The government-wide financial statements (pages 9-11) provide readers with a broad overview of the finances of the City of Menominee, in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the City's financial position.

CITY OF MENOMINEE, MICHIGAN
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current and other assets	\$ 9,177,767	\$ 3,094,619	\$ 12,272,386
Capital assets	<u>24,965,429</u>	<u>22,424,156</u>	<u>47,389,585</u>
Total Assets	<u>\$34,143,196</u>	<u>\$25,518,775</u>	<u>\$ 59,661,971</u>
LIABILITIES			
Long-term liabilities outstanding	\$ 6,100,770	\$ 4,460,280	\$ 10,561,050
Current and other liabilities	<u>699,278</u>	<u>410,140</u>	<u>1,109,418</u>
Total Liabilities	<u>\$ 6,800,048</u>	<u>\$ 4,870,420</u>	<u>\$ 11,670,468</u>
NET ASSETS			
Invested in capital assets net of related debt	\$19,100,792	\$17,358,055	\$ 36,458,847
Restricted	3,671,892	1,805,310	5,477,202
Unrestricted	<u>4,570,464</u>	<u>1,484,990</u>	<u>6,055,454</u>
Total Net Assets	<u>\$27,343,148</u>	<u>\$20,648,355</u>	<u>\$ 47,991,503</u>

Assets exceeded liabilities by \$47,991,503 at June 30, 2004.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes for net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the terms of related cash flows. The net assets increased by \$207,905.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities: Governmental activities and Business-type activities.

The governmental activities of the City of Menominee include police, fire, public works, parks, recreation, and general administration. Property taxes, state shared revenue, and state and federal grants finance most of the activities. Also, all the special revenue funds, debt service funds, capital project funds, and permanent funds are also included here.

The business-type activities include Water Treatment Utility, Wastewater Treatment Utility, Marina, River Park, and Industrial Aid. The City charges a fee to customers to help it cover the cost of certain services it provides.

CITY OF MENOMINEE, MICHIGAN
Statement of Activities
Year Ended June 30, 2004

	Governmental Activities	Business-Type Activities	Total
REVENUES			
Program revenue	\$ 499,348	\$ 2,761,696	\$ 3,261,044
Operating grants and contributions	1,081,916	-	1,081,916
Capital grants and contributions	352,298	92,141	444,439
GENERAL REVENUES			
Property taxes	\$ 3,234,560	-	\$ 3,234,560
State and federal aids not restricted to specific functions	1,245,520	-	\$ 1,245,520
Interest and investment earnings	94,746	24,444	119,190
Other	44,847	-	44,847
Total Revenues	<u>\$ 6,553,235</u>	<u>\$ 2,878,281</u>	<u>\$ 9,431,516</u>
EXPENSES			
General government	\$ 708,774	-	\$ 708,774
Public safety	2,466,413	-	2,466,413
Public works	1,839,212	-	1,839,212
Culture and recreation	1,089,729	-	1,089,729
Other	208,002	-	208,002
Interest and fiscal charges	271,226	-	271,226
Water treatment	-	897,681	897,681
Wastewater treatment	-	1,144,937	1,144,937
Marina	-	491,659	491,659
River Park	-	105,290	105,290
Industrial Aid	-	688	688
Total Expenses	<u>\$ 6,583,356</u>	<u>\$ 2,640,255</u>	<u>\$ 9,223,611</u>
Increase/(Decrease) in net assets	\$ (30,121)	\$ 238,026	\$ 207,905
Net assets - July 1, 2003	<u>\$27,373,269</u>	<u>\$20,410,329</u>	<u>\$47,783,598</u>
Net assets - June 30, 2004	<u>\$27,343,148</u>	<u>\$20,648,355</u>	<u>\$47,991,503</u>

The Statement of Net Assets shows the restricted net assets and unrestricted net assets. The unrestricted assets are the assets that can be spent under City government's discretion. The restricted assets are the assets that are constrained by external regulations on how they may be used, such as debt covenants, enabling legislation, or other legal requirements, and they can not be spent under City's discretion. The City's total unrestricted net assets were \$6,055,454 at fiscal year end June 30, 2004, with the majority in the governmental type activities.

The largest portion of the net assets for the business-type activities reflect the investment in capital assets (i.e., land, buildings, machinery and equipment, and infrastructure), less any related debt used to purchase those assets that is still outstanding. The City uses these capital assets to provide services to citizens, these assets are not available for future spending.

2. Fund Financial Statements

The Fund Financial Statements begin on page 12-23 and provide detailed information about the most significant funds - not the City as a whole. The City has three kinds of funds: Governmental, Proprietary, and Fiduciary Funds.

Governmental Funds. Governmental funds financial statements focus on near-term inflows and outflow of spendable resources. Such information is useful in assessing the City's financial requirements. Unreserved fund balance may serve as a useful measure of the city's net resources available for spending the end of 2004 fiscal year. The unreserved funds are the funds that can be spent under management's discretion.

At fiscal year end June 30, 2004, the City's governmental fund reported combined ending fund balance of \$7,719,689.

The general fund (page 12) is the chief operating fund of the City. At the fiscal year end, its unreserved fund balance was \$1,700,900. Among the unreserved funds, \$846,375 was designated by management for further projects. A healthy unrestricted fund balance is necessary for a sound and responsible financial management system. The City needs the unreserved funds to meet emergency needs, general interest revenues through investments, and to maintain the City's bond rating. The principal use of the unreserved funds is to avoid short term borrowing because of cash flow shortages.

Proprietary Funds. Proprietary funds provide the same type of information found in the government-wide financial statements, only in more detail. For the proprietary funds, unrestricted net assets of the Water Treatment Utility at the fiscal year end amounted to \$542,858, for the Wastewater Treatment Utilities amounted to \$361,671, and for the Marina amount to \$316,269.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Menominee's programs.

General Fund Budgetary Highlights

Differences between the original budget and the final budget for revenues and expenditures were relatively minor. However, budget adjustments were necessary for other financing sources and uses. The operating budget transfers were established for designated monies to defray the rising costs of health insurance and to record revenue from equipment rental. These amounts are not transferred in from any other funds. Thus, the operating transfers in budget was amended to reflect no transfers from other funds.

A budget amendment was approved to increase the operating transfers out to local streets to finance street capping not included in the bond issue. The general fund had monies designated in the 2003 fiscal year specifically for this purpose.

Capital Assets and Debt Administration

The City's investment in capital assets for its governmental and business type activities as of June 30, 2004 amounts to \$47,389,585, net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure. The major capital asset additions included 22nd Street road reconstruction and various resurfacing projects throughout the City. The capital asset additions for infrastructure in the government activities were financed by a bond issue authorized specifically for street construction, federal grants, and general fund reserves. The capital asset additions to business type activities for infrastructure on the water and sewer system were financed by user fees.

Long Term Debt. At the end of the 2004 fiscal year the City of Menominee had total bonded debt outstanding of \$10,324,917. Of this amount \$5,864,637 comprise debt backed by the full faith and credit of the government and \$4,460,280 represents bonds secured by specified revenue sources (i.e., revenue bonds).

The City maintains an A-bond rating by Moody's for both its general obligation debt, and for the revenues bonds for the Wastewater Treatment Utility.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total state equalized value. The current debt limitation for the City of Menominee is \$16,436,810 which is significantly in excess of the City's outstanding general obligation debt of \$5,864,637.

NEXT YEAR'S BUDGETS AND RATES

State Shared Revenue contributes approximately twenty-five percent of the General Fund revenues for the City of Menominee. For the 2005 fiscal year, the City expects this revenue to remain about the same or a slight decrease from the 2004 revenue.

Over 50% of the City's general fund revenue are from general property tax levies. The tax rate has remained relatively unchanged the last few years. City management have decided to increase the millage rate about \$1 per \$1,000 of taxable value for the 2005 fiscal year. The additional revenue will replace prior years state shared revenue reductions.

The 2005 general fund budget includes the use of undesignated fund balance of \$141,916.

In the City Business-type Fund, the Water Utility and Wastewater Treatment Utility have increased the rates 3% for 2005 fiscal year. The flat charge has been increased and reallocated so that a greater percent is shifted to Wastewater Treatment Utility. This will finance the increased revenue bond principal and interest payments.

Request for Information

The financial report is designed to provide a general overview of the City of Menominee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in the report, or requests for additional financial information should be addressed to Menominee City Clerk/Treasurer, 2511 Tenth Street, Menominee, Michigan 49858.

BASIC FINANCIAL STATEMENTS

CITY OF MENOMINEE, MICHIGAN

STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 5,924,046	\$ 2,845,944	\$ 8,769,990
Receivables:			
Taxes	38,999	-	38,999
Special assessments	151,184	192,443	343,627
Accounts	9,771	541,035	550,806
Notes	1,107,770	-	1,107,770
Lease agreements	606,550	-	606,550
Internal balances	662,728	(654,951)	7,777
Due from other governmental units	407,139	-	407,139
Inventory and prepaid items	166,485	115,354	281,839
Deferred charges	103,095	54,794	157,889
Capital assets:			
Land	1,967,995	522,273	2,490,268
Building and improvements	4,271,725	16,978,330	21,250,055
Machinery and equipment	3,736,369	845,367	4,581,736
Infrastructure	24,454,062	15,624,311	40,078,373
Less: Accumulated depreciation	(9,464,722)	(11,546,125)	(21,010,847)
TOTAL ASSETS	\$ 34,143,196	\$ 25,518,775	\$ 59,661,971
LIABILITIES			
Accounts payable	\$ 303,381	\$ 29,351	\$ 332,732
Accrued expense	54,650	24,883	79,533
Accrued interest payable	102,029	56,650	158,679
Due to other governmental units	87,428	-	87,428
Unearned revenue	151,790	299,256	451,046
Noncurrent liabilities:			
Due within one year	771,135	416,621	1,187,756
Due in more than one year	5,329,635	4,043,659	9,373,294
TOTAL LIABILITIES	\$ 6,800,048	\$ 4,870,420	\$ 11,670,468
NET ASSETS			
Investment in capital assets, net of related debt	\$ 19,100,792	\$ 17,358,055	\$ 36,458,847
Restricted for:			
Debt service	161,791	456,687	618,478
Plant replacement	-	1,348,623	1,348,623
Construction	2,399,700	-	2,399,700
Permanent fund	1,110,401	-	1,110,401
Unrestricted	4,570,464	1,484,990	6,055,454
TOTAL NET ASSETS	\$ 27,343,148	\$ 20,648,355	\$ 47,991,503

See accompanying notes to financial statements.

CITY OF MENOMINEE, MICHIGAN

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 708,774	\$ 144,447	\$ -	\$ -
Public safety	2,466,413	72,772	15,795	-
Public works	1,839,212	24,095	849,784	352,298
Culture and recreation	1,089,729	258,034	102,718	-
Other	208,002	-	113,619	-
Interest and fiscal charges on debt	<u>271,226</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$6,583,356</u>	<u>\$ 499,348</u>	<u>\$1,081,916</u>	<u>\$ 352,298</u>
Business-type activities:				
Water treatment	\$ 897,681	\$ 880,512	\$ -	\$ 39,363
Wastewater treatment	1,144,937	1,266,795	-	52,778
Marina	491,659	515,178	-	-
River park	105,290	96,211	-	-
Industrial aid	<u>688</u>	<u>3,000</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>\$2,640,255</u>	<u>\$2,761,696</u>	<u>\$ -0-</u>	<u>\$ 92,141</u>
Total	<u>\$9,223,611</u>	<u>\$3,261,044</u>	<u>\$1,081,916</u>	<u>\$ 444,439</u>

General revenues:

Property tax, levied for general purposes
 Property tax, levied for debt service
 Property tax, levied for streets
 State and federal aid not restricted
 to specific functions
 Interest and investment earnings
 Other

Total general revenues

Change in net assets

Net assets - Beginning of year

Net assets - End of year

See accompanying notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (564,327)	\$ -	\$ (564,327)
(2,377,846)	-	(2,377,846)
(613,035)	-	(613,035)
(728,977)	-	(728,977)
(94,383)	-	(94,383)
<u>(271,226)</u>	<u>-</u>	<u>(271,226)</u>
<u>\$ (4,649,794)</u>	<u>\$ -0-</u>	<u>\$ (4,649,794)</u>
 \$ -	 \$ 22,194	 \$ 22,194
-	174,636	174,636
-	23,519	23,519
-	(9,079)	(9,079)
<u>-</u>	<u>2,312</u>	<u>2,312</u>
<u>\$ -0-</u>	<u>\$ 213,582</u>	<u>\$ 213,582</u>
<u>\$ (4,649,794)</u>	<u>\$ 213,582</u>	<u>\$ (4,436,212)</u>
 \$ 2,719,244	 \$ -	 \$ 2,719,244
363,853	-	363,853
151,463	-	151,463
 1,245,520	 -	 1,245,520
94,746	24,444	119,190
<u>44,847</u>	<u>-</u>	<u>44,847</u>
<u>\$ 4,619,673</u>	<u>\$ 24,444</u>	<u>\$ 4,644,117</u>
 \$ (30,121)	 \$ 238,026	 \$ 207,905
<u>27,373,269</u>	<u>20,410,329</u>	<u>47,783,598</u>
<u>\$27,343,148</u>	<u>\$20,648,355</u>	<u>\$47,991,503</u>

CITY OF MENOMINEE, MICHIGAN

GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2004

	General Fund	Major Street	Local Street	Menominee Paper Debt
ASSETS:				
Cash and investments	\$1,259,275	\$ 108,554	\$ 42,914	\$ -
Receivables:				
Taxes	38,999	-	-	-
Special assessments	53,622	87,735	9,827	-
Accounts	9,771			-
Notes				-
Lease agreement				606,550
Due from other funds	587,413	247,757	197,001	-
Due from other governmental units	186,751	118,708	33,674	-
Inventory and prepaid items	165,285	-	-	-
Total assets	<u>\$2,301,116</u>	<u>\$ 562,754</u>	<u>\$ 283,416</u>	<u>\$ 606,550</u>
LIABILITIES:				
Accounts payable	\$ 130,552	\$ 86,277	\$ -	\$ -
Accrued payroll	47,780	-	-	-
Due to other funds	150,450	336,397	243,064	-
Due to other governmental units	1,602	-	-	-
Deferred revenue	98,871	87,735	9,827	606,550
Total liabilities	<u>\$ 429,255</u>	<u>\$ 510,409</u>	<u>\$ 252,891</u>	<u>\$ 606,550</u>
FUND BALANCES:				
Reserved	\$ 170,961	\$ -	\$ -	\$ -
Unreserved:				
Designated	846,375	-	-	-
Undesignated	854,525	52,345	30,525	-
Total fund balance	<u>\$1,871,861</u>	<u>\$ 52,345</u>	<u>\$ 30,525</u>	<u>\$ -0-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$2,301,116</u>	<u>\$ 562,754</u>	<u>\$ 283,416</u>	<u>\$ 606,550</u>

See accompanying notes to financial statements.

<u>Spies Library Debt</u>	<u>Street Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 122,490	\$1,948,426	\$2,442,387	\$ 5,924,046
-	-	-	38,999
-	-	-	151,184
-	-	-	9,771
-	-	1,107,770	1,107,770
-	-	-	606,550
-	591,165	97,555	1,720,891
-	-	68,006	407,139
-	-	1,200	166,485
<u>\$ 122,490</u>	<u>\$2,539,591</u>	<u>\$3,716,918</u>	<u>\$10,132,835</u>
\$ -	\$ 75,301	\$ 11,251	\$ 303,381
-	-	6,870	54,650
11	64,590	263,651	1,058,163
-	-	85,826	87,428
-	-	106,541	909,524
<u>\$ 11</u>	<u>\$ 139,891</u>	<u>\$ 474,139</u>	<u>\$ 2,413,146</u>
\$ 122,479	\$2,399,700	\$2,310,163	\$ 5,003,303
-	-	-	846,375
-	-	932,616	1,870,011
<u>\$ 122,479</u>	<u>\$2,399,700</u>	<u>\$3,242,779</u>	<u>\$ 7,719,689</u>
<u>\$ 122,490</u>	<u>\$2,539,591</u>	<u>\$3,716,918</u>	<u>\$10,132,835</u>

CITY OF MENOMINEE, MICHIGAN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balances for governmental funds		\$ 7,719,689
Capital assets used in government activities are not financial resources and therefore are not reported in the fund statements. Those assets consist of:		
Land	\$ 1,967,995	
Buildings and improvements	4,271,725	
Machinery and equipment	3,736,369	
Infrastructure	24,454,062	
Less - accumulated depreciation	<u>(9,464,722)</u>	24,965,429
Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term are reported in the statement of net assets.		
Accrued interest on long-term debt	\$ (102,029)	
Bonds payable	(5,320,000)	
Notes payable	(544,637)	
Compensated absences	(236,133)	
Bond discount and issuance cost	<u>103,095</u>	(6,099,704)
Deferred revenue reported as a liability on the balance sheet of the fund financial statement has been recognized as a revenue in the statement of activities and has been removed from the statement of net assets.		
		<u>757,734</u>
Net assets of governmental activities		<u>\$27,343,148</u>

See accompanying notes to financial statements.

CITY OF MENOMINEE, MICHIGAN

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2004

	General Fund	Major Street	Local Street	Menominee Paper Debt
Revenues:				
Taxes	\$2,712,132	\$ 151,463	\$ -	\$ -
Licenses and permits	143,257	-	-	-
Intergovernmental	1,279,479	963,189	198,132	-
Charges for services	3,750	-	-	-
Fines and forfeits	45,893	-	-	-
Other	324,428	19,572	10,331	305,700
Total revenues	<u>\$4,508,939</u>	<u>\$1,134,224</u>	<u>\$ 208,463</u>	<u>\$ 305,700</u>
Expenditures:				
General government	\$ 727,139	\$ -	\$ -	\$ -
Public safety	2,347,633	-	-	-
Highways, streets and bridges	191,082	521,489	275,782	-
Sanitation	335,602	-	-	-
Culture and recreation	287,397	-	-	-
Other functions	116,195	-	-	-
Capital outlay	283,252	1,031,023	466,614	-
Debt service:				
Principal retirement	96,155	-	-	270,000
Interest and fiscal changes	33,273	-	-	35,700
Issuance cost	-	-	-	-
Total expenditures	<u>\$4,417,728</u>	<u>\$1,552,512</u>	<u>\$ 742,396</u>	<u>\$ 305,700</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 91,211</u>	<u>\$ (418,288)</u>	<u>\$ (533,933)</u>	<u>\$ -0-</u>
Other financing sources (uses):				
Proceeds of long-term debt	\$ -	\$ -	\$ -	\$ -
Operating transfers in	-	352,740	489,506	-
Operating transfers out	(577,258)	(228,844)	-	-
Total other financing sources (uses)	<u>\$ (577,258)</u>	<u>\$ 123,896</u>	<u>\$ 489,506</u>	<u>\$ -0-</u>
Net change in fund balances	<u>\$ (486,047)</u>	<u>\$ (294,392)</u>	<u>\$ (44,427)</u>	<u>\$ -</u>
Fund balances - Beginning of year	<u>2,357,908</u>	<u>346,737</u>	<u>74,952</u>	<u>-</u>
Fund balances - End of year	<u>\$1,871,861</u>	<u>\$ 52,345</u>	<u>\$ 30,525</u>	<u>\$ -0-</u>

See accompanying notes to financial statements.

<u>Spies Library Debt</u>	<u>Street Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 120,000	\$ -	\$ 250,965	\$ 3,234,560
-	-	-	143,257
-	-	81,624	2,522,424
-	-	101,969	105,719
-	-	71,024	116,917
<u>887</u>	<u>28,903</u>	<u>253,040</u>	<u>942,861</u>
<u>\$ 120,887</u>	<u>\$ 28,903</u>	<u>\$ 758,622</u>	<u>\$ 7,065,738</u>
 \$ -	 \$ -	 \$ -	 \$ 727,139
-	-	7,161	2,354,794
-	-	-	988,353
-	-	-	335,602
-	-	708,949	996,346
-	4,875	86,932	208,002
-	-	-	1,780,889
1,035,000	-	255,000	1,656,155
43,191	-	160,493	272,657
<u>29,187</u>	<u>-</u>	<u>-</u>	<u>29,187</u>
<u>\$1,107,378</u>	<u>\$ 4,875</u>	<u>\$1,218,535</u>	<u>\$ 9,349,124</u>
 \$ (986,491)	 \$ 24,028	 \$ (459,913)	 \$ (2,283,386)
\$ 965,000	\$ -	\$ -	\$ 965,000
-	-	499,098	1,341,344
<u>-</u>	<u>(487,336)</u>	<u>(47,906)</u>	<u>(1,341,344)</u>
<u>\$ 965,000</u>	<u>\$ (487,336)</u>	<u>\$ 451,192</u>	<u>\$ 965,000</u>
\$ (21,491)	\$ (463,308)	\$ (8,721)	\$ (1,318,386)
<u>143,970</u>	<u>2,863,008</u>	<u>3,251,500</u>	<u>9,038,075</u>
<u>\$ 122,479</u>	<u>\$2,399,700</u>	<u>\$3,242,779</u>	<u>\$ 7,719,689</u>

CITY OF MENOMINEE, MICHIGAN

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Net change in fund balances - Total governmental funds		\$(1,318,386)
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of the assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Depreciation	\$ (848,150)	
Capital outlay	1,780,889	
Book value of assets sold	<u>(29,969)</u>	902,770
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.</p>		
Special assessments	\$ (18,523)	
Lease payments	<u>(305,700)</u>	(324,223)
<p>The issuance of long-term debt provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Bond proceeds	\$ (965,000)	
Bond payments	1,656,155	
Bond discount and issuance	29,187	
Amortization of bond discount and issuance cost	<u>(14,383)</u>	705,959
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Accrued interest on long-term debt	\$ 15,814	
Compensated absences	<u>(12,055)</u>	3,759
Change in net assets of governmental activities		<u>\$ (30,121)</u>

See accompanying notes to financial statements.

CITY OF MENOMINEE, MICHIGAN

STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Water Treatment Utility	Wastewater Treatment Utility	Marina	Other Enterprise Funds	Total
ASSETS:					
Cash and investments	\$ 180,958	\$ 87,540	\$ 526,486	\$ 245,650	\$ 1,040,634
Accounts receivable	233,930	307,105	-	-	541,035
Special assessments	75,110	117,333	-	-	192,443
Due from other funds	6,521	-	-	32,083	38,604
Inventories	65,325	-	-	-	65,325
Prepaid items	21,012	29,017	-	-	50,029
Restricted assets:					
Cash and investments	145,855	1,659,455	-	-	1,805,310
Unamortized debt discount and expenses	-	22,250	32,544	-	54,794
Capital assets:					
Land	71,171	22,707	-	428,395	522,273
Buildings	8,528,971	7,344,526	532,304	572,529	16,978,330
Improvements other than buildings	5,405,957	7,699,670	2,137,321	381,363	15,624,311
Machinery and equipment	351,389	230,477	188,501	75,000	845,367
Accumulated depreciation	(5,418,788)	(4,875,937)	(943,184)	(308,216)	(11,546,125)
TOTAL ASSETS	\$ 9,667,411	\$12,644,143	\$2,473,972	\$1,426,804	\$ 26,212,330
LIABILITIES:					
Current liabilities:					
Accounts payable	\$ 17,933	\$ 11,320	\$ -	\$ 98	\$ 29,351
Accrued expense	11,674	12,196	-	1,013	24,883
Accrued interest	4,902	39,473	12,275	-	56,650
Due to other funds	66,290	614,286	550	12,429	693,555
Deferred revenue	5,490	63,830	229,936	-	299,256
Noncurrent liabilities:					
Due within one year	16,425	350,196	50,000	-	416,621
Due in more than one year	115,089	2,928,570	1,000,000	-	4,043,659
TOTAL LIABILITIES	\$ 237,803	\$ 4,019,871	\$1,292,761	\$ 13,540	\$ 5,563,975
NET ASSETS:					
Investment in capital assets net of related debt	\$ 8,740,895	\$ 6,603,146	\$ 864,942	\$1,149,072	\$ 17,358,055
Restricted:					
Debt retirement	-	456,687	-	-	456,687
Plant replacement	145,855	1,202,768	-	-	1,348,623
Unrestricted	542,858	361,671	316,269	264,192	1,484,990
TOTAL NET ASSETS	\$ 9,429,608	\$ 8,624,272	\$1,181,211	\$1,413,264	\$ 20,648,355

See accompanying notes to financial statements.

CITY OF MENOMINEE, MICHIGAN

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2004

	Water Treatment Utility	Wastewater Treatment Utility	Marina	Other Enterprise Funds	Total
Operating revenues					
Charges for services	\$ 766,874	\$1,255,854	\$ 515,178	\$ -	\$ 2,537,906
Hydrant rental	53,321	-	-	-	53,321
Other	60,317	10,941	-	99,211	170,469
Total operating revenues	\$ 880,512	\$1,266,795	\$ 515,178	\$ 99,211	\$ 2,761,696
Operating expenses					
Operation and maintenance	\$ 321,048	\$ 340,367	\$ 550	\$ 71,883	\$ 733,848
Sub-contract	252,145	351,781	300,556	-	904,482
Depreciation	318,463	306,244	138,455	34,095	797,257
Total operating expenses	\$ 891,656	\$ 998,392	\$ 439,561	\$ 105,978	\$ 2,435,587
Operating income (loss)	\$ (11,144)	\$ 268,403	\$ 75,617	\$ (6,767)	\$ 326,109
Nonoperating revenue (expenses)					
Interest revenue	\$ 2,792	\$ 17,751	\$ 2,081	\$ 1,820	\$ 24,444
Interest expense	(6,025)	(146,545)	(52,098)	-	(204,668)
Total nonoperating revenue (expenses)	\$ (3,233)	\$ (128,794)	\$ (50,017)	\$ 1,820	\$ (180,224)
Net income (loss)	\$ (14,377)	\$ 139,609	\$ 25,600	\$ (4,947)	\$ 145,885
Capital contributions	39,363	52,778	-	-	92,141
Change in net assets	\$ 24,986	\$ 192,387	\$ 25,600	\$ (4,947)	\$ 238,026
Net assets - Beginning of year	9,404,622	8,431,885	1,155,611	1,418,211	20,410,329
Net assets - End of year	\$9,429,608	\$8,624,272	\$1,181,211	\$1,413,264	\$20,648,355

See accompanying notes to financial statements.

CITY OF MENOMINEE, MICHIGAN

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2004

	<u>Water Treatment Utility</u>	<u>Wastewater Treatment Utility</u>	<u>Marina</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Cash flows from operating activities:					
Cash received from customers	\$ 837,520	\$1,266,267	\$ 523,383	\$ 99,211	\$ 2,726,381
Cash received from city	53,321	-	-	-	53,321
Cash paid to suppliers	(174,209)	(236,625)	(550)	(41,433)	(452,817)
Cash paid to sub-contractors	(252,145)	(351,781)	(300,556)	-	(904,482)
Cash paid to employees	(141,468)	(99,548)	-	(29,667)	(270,683)
Net cash provided by operating activities	<u>\$ 323,019</u>	<u>\$ 578,313</u>	<u>\$ 222,277</u>	<u>\$ 28,111</u>	<u>\$ 1,151,720</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	\$ (329,065)	\$ (200,578)	\$ (4,298)	\$ (884)	\$ (534,825)
Principal paid on long-term debt	(15,806)	(313,914)	(45,000)	-	(374,720)
Interest paid on long-term debt	(6,586)	(147,401)	(50,090)	-	(204,077)
Capital contributions	<u>14,481</u>	<u>41,434</u>	<u>-</u>	<u>-</u>	<u>55,915</u>
Net cash (used) by capital and related financing activities	<u>\$ (336,976)</u>	<u>\$ (620,459)</u>	<u>\$ (99,388)</u>	<u>\$ (884)</u>	<u>\$ (1,057,707)</u>
Cash flows from investing activities					
Interest received on investments	<u>\$ 2,792</u>	<u>\$ 17,751</u>	<u>\$ 2,081</u>	<u>\$ 1,820</u>	<u>\$ 24,444</u>
Net increase (decrease) in cash and cash equivalents	\$ (11,165)	\$ (24,395)	\$ 124,970	\$ 29,047	\$ 118,457
Cash and cash equivalents - Beginning of year	<u>337,978</u>	<u>1,771,390</u>	<u>401,516</u>	<u>216,603</u>	<u>2,727,487</u>
Cash and cash equivalents - End of year	<u>\$ 326,813</u>	<u>\$1,746,995</u>	<u>\$ 526,486</u>	<u>\$ 245,650</u>	<u>\$ 2,845,944</u>

See accompanying notes to financial statements.

	<u>Water Treatment Utility</u>	<u>Wastewater Treatment Utility</u>	<u>Marina</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Reconciliation of cash equivalents to the combined balance sheet					
Unrestricted cash and investments	\$ 180,958	\$ 87,540	\$ 526,486	\$ 245,650	\$ 1,040,634
Restricted cash and investments	<u>145,855</u>	<u>1,659,455</u>	<u>-</u>	<u>-</u>	<u>1,805,310</u>
Total cash and cash equivalents	<u>\$ 326,813</u>	<u>\$1,746,995</u>	<u>\$ 526,486</u>	<u>\$ 245,650</u>	<u>\$ 2,845,944</u>
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	\$ (11,144)	\$ 268,403	\$ 75,617	\$ (6,767)	\$ 326,109
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	318,463	306,244	138,455	34,095	797,257
Changes to assets and liabilities					
Accounts receivable	9,689	(528)	-	-	9,161
Due from other funds	-	-	-	(1,428)	(1,428)
Inventories	12,192	-	-	-	12,192
Prepaid items	(612)	(44)	-	-	(656)
Accounts payable	(5,999)	2,574	-	(811)	(4,236)
Accrued expense	(210)	1,664	-	196	1,650
Due to other funds	-	-	-	2,826	2,826
Deferred revenue	<u>640</u>	<u>-</u>	<u>8,205</u>	<u>-</u>	<u>8,845</u>
Net cash provided by operating activities	<u>\$ 323,019</u>	<u>\$ 578,313</u>	<u>\$ 222,277</u>	<u>\$ 28,111</u>	<u>\$ 1,151,720</u>

CITY OF MENOMINEE, MICHIGAN

FIDUCIARY FUNDS
STATEMENTS OF NET ASSETS
June 30, 2004

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and investments	\$8,824,406	\$ 5,261
Taxes receivable	-	78,106
TOTAL ASSETS	<u>\$8,824,406</u>	<u>\$ 83,367</u>
LIABILITIES		
Due to other funds	\$ 2,477	\$ 5,300
Due to other governments	-	78,067
TOTAL LIABILITIES	<u>\$ 2,477</u>	<u>\$ 83,367</u>
NET ASSETS		
Reserved for employee's retirement system	\$8,823,009	\$ -
Reserved for employee's benefits	(1,080)	-
TOTAL NET ASSETS	<u>\$8,821,929</u>	<u>\$ -0-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$8,824,406</u>	<u>\$ 83,367</u>

See accompanying notes to financial statements.

CITY OF MENOMINEE, MICHIGAN

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2004

	Pension Trust Fund
Additions	
Contributions	
Employees	\$ 84,934
Employer	91,467
Investment revenue	<u>705,690</u>
Total additions	<u>\$ 882,091</u>
Deductions	
Annuities	\$ 389,669
Benefits	<u>9,804</u>
Total deductions	<u>\$ 399,473</u>
Change in net assets	\$ 482,618
Net assets - Beginning of year	<u>8,339,311</u>
Net assets - End of year	<u>\$ 8,821,929</u>

See accompanying notes to financial statements.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Menominee ("the City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the City are described below:

A. Reporting Entity

The City of Menominee operates under an elected council (8 members) and an elected mayor. The council and mayor appoint a city manager to perform all administrative duties required for the following services: public safety (police and fire), highways and streets, water, sewer, sanitation, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services. In accordance with GAAP, the basic financial statements are required to include the City and any separate component units that have a significant operational or financial relationship with the City. The City has not identified any component units that are required to be enclosed in the basic financial statements in accordance with standards established by GASB Statement No. 14.

B. Related Organization

City officials are responsible for appointing the board members of the Housing Commission of the City of Menominee, but the City's accountability for this organization does not extend beyond making the appointments. The City is not financially accountable for the Housing Commission as defined by standards in GASB Statement No. 14. Therefore this organization is not included in the City's reporting entity. Additional information on the Housing Commission follows:

The Housing Commission was established by the City to administer the low and moderate income housing program funded by federal grants and rental income. Although board members of the Housing Commission are appointed by the City Council, there is no financial interdependency with the City of Menominee nor does the City have any significant influence over Housing Commission operations. The City does not provide funding for the Housing Commission. Additionally, the City does not hold title to any of the Housing Commission assets, nor does it have any right to the Housing Commission's surpluses. The City has no legal obligation to fund Housing Commission programs should grant funding no longer be available.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

C. Basis of Financial Statement Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to functions in the statement of activities. Program revenues included 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule is hydrant rental charges between the City's water treatment utility and the general fund. Elimination of this charge would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water utility, wastewater utility and marina enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into individual funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses.

Funds are organized as major funds or non-major funds within the governmental, proprietary, and fiduciary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Governmental Funds

Governmental funds are identified as either general, special revenue, debt service, capital projects, or permanent funds based upon the following guidelines.

General Fund

The general fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Permanent Funds

Permanent funds are used to account for resources legally held in a trust. All resources of the fund, including any earnings on invested resources, may be used to support the organization.

Business Type Activities

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for activities where a fee is charged to external users for goods and services. Enterprise activities include operations (a) that are financed with debt that is secured solely by the pledge of the net revenues of the fund, or (b) where laws or regulations require that the costs of the activity be recovered with fees and charges, or (c) where the fees and charges are priced in a way designed to recover the costs of the activity.

Fiduciary Funds (Not included in government-wide statements)

Pension Trust Fund

Pension trust funds are used to record the operations of the police and fire departments retirement system.

Agency Funds

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and/or other governmental units.

Major funds

The City reports the following major governmental funds:

General Fund

This is the City's main operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Major Street Fund - Special revenue fund

This fund accounts for revenues and expenditures in connection with the street system designated as major streets by the State of Michigan. This fund is required under state law.

Local Street Fund - Special revenue fund

This fund accounts for revenues and expenditures in connection with the street system designated as local streets by the State of Michigan. This fund is required under state law.

Menominee Paper Company - Debt service fund

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt for the wastewater treatment facility for the Menominee Paper Company.

Spies Library - Debt service fund

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt for the expansion of Spies Library.

Street Construction - Capital projects fund

This fund accounts for the reconstruction of streets.

Water Treatment Utility - Enterprise fund

This fund accounts for the City's provision of water service to city residents, business entities and public authorities.

Wastewater Treatment Utility - Enterprise fund

This fund accounts for the City's provision of wastewater treatment service to City residents, business entities and public authorities.

Marina Fund - Enterprise fund

This fund accounts for the operation of the City's marina.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Nonmajor Funds

The City reports the following nonmajor funds:

Special Revenue Fund
Cemetery operations
Spies Public Library
Downtown Development Authority
Community Development
Neighborhood Preservation Project
Economic Development - Iron Works
Economic Development - Mill Works
Economic Development - Great Lakes Pulp and Fiber
Waterfront Festival
Drug Enforcement
Public Improvement

Debt Service Fund
Street Construction

Capital Project Fund
Spies Field

Permanent Fund
Cemetery Perpetual Care

Proprietary Funds
River Park
Industrial Aid

Fiduciary Funds

Pension Trust Funds
Police and Fire Retirement
Employee's Flexible Benefits

Agency Fund
Tax Collection

D. Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting,

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

D. Basis of Accounting - Cont'd.

revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The current financial resources measurement focus and the modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded in the year levied as receivables and recognized as revenue. Real property taxes not collected by February 28 are turned over to the county for collection. The county pays the City for these delinquent taxes within 60 days. Delinquent personal property taxes are recorded as deferred revenue until collected or written off. In addition to property taxes for the city, taxes are collected for and remitted to the state and county governments as well as the local school districts. Taxes are levied in July on the assessed value as of the prior July 1.

Property Tax Calendar - 2003 Tax Roll

Lien date and levy date	July 1, 2003
Tax bills mailed	July 1, 2003
Payment in full	September 14, 2003
Personal property taxes in full	September 14, 2003
Forfeiture	March 1, 2005
Foreclosure	March 1, 2006

Intergovernmental aids and grants are recognized as revenues in the period the related expenditures are incurred, if applicable, or when the municipality is entitled to the aids.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

D. Basis of Accounting - Cont'd.

In the government-wide financial statements, special assessments are recognized as revenues when levied against the benefiting properties. In governmental fund financial statements, special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and deferred revenues.

Revenues susceptible to accrual include property taxes, intergovernmental revenue, miscellaneous taxes, public charges for services, special assessments, and interest.

Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

The City reports deferred revenues on its statement of net assets and its governmental funds balance sheet. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Proprietary funds are accounted for on the accrual basis. Revenues such as user fees are recognized in the accounting period in which they are earned; expenses are recognized in the period incurred.

The proprietary funds have elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

E. Measurement Focus

On the government-wide Statement of Net Assets and Statement of Activities both governmental and business-type activities are presented using the flow of economic resources measurement focus as defined below.

The measurement focus of proprietary funds is the flow of economic resources. Under this concept, revenues and expenses are matched using the accrual basis of accounting. All fixed assets are capitalized at historical cost and depreciated over their useful lives.

The measurement focus of all governmental funds is the flow of current financial resources concept. Under this concept, sources and uses of financial resources, including capital outlays, debt proceeds and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or a reservation of fund equity. Liabilities for claims, judgments, compensated absences and pension contributions which will not be currently liquidated using expendable available financial resources are included as liabilities in the government-wide and proprietary fund financial statements but are excluded from the governmental funds financial statements. The related expenditures are recognized in the governmental fund financial statements when the liabilities are liquidated.

F. Assets, Liabilities and Net Assets or Equity

a. Cash and Investments

Cash and investments are combined on the balance sheet. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less are considered to be cash equivalents.

b. Accounts Receivable

Accounts receivable are recorded at gross amount with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the basic financial statements.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

F. Assets, Liabilities and Net Assets or Equity - Cont'd.

c. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivable and payables are classified as "due from other funds" and "due to other funds" on the balance sheet. Noncurrent portions of the interfund receivables for the governmental funds are offset by a reservation of fund balance since they do not constitute expendable available financial resources and therefore are not available for appropriation.

The amount reported on the statement of net assets for internal balances represents the residual balance outstanding between the governmental activities, business type activities and fiduciary funds.

d. Inventories

Inventories are recorded at cost, which approximates market, using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

Inventories of governmental funds in the fund financial statements are offset by fund balance reserve amounts to indicate that they do not represent spendable available financial resources.

e. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items.

Prepaid items of governmental funds in the fund financial statements are offset by fund balance reserve amounts to indicate that they do not represent spendable available financial resources.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

F. Assets, Liabilities and Net Assets or Equity - Cont'd.

f. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives.

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Buildings	40	50
Improvements other than buildings	20	15-50
Machinery and equipment	15	3-10
Infrastructure	50	--

g. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. All vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements.

h. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet recognizable.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

F. Assets, Liabilities and Net Assets or Equity - Cont'd.

i. Long-term Obligations

In the government-wide financial statements, and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

j. Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

F. Assets, Liabilities and Net Assets or Equity - Cont'd.

j. Equity Classifications - Cont'd.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

G. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental fund types. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide and proprietary funds statements as expenses when the related liabilities are incurred. There were no significant claims or judgments at year-end.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

I. Change in Accounting Principles

The City adopted GASB Statements No. 34, 37 and 38 effective July 1, 2003. These Statements require the City to include government-wide financial statements using the economic resources measurement focus. With this measurement focus, all assets and liabilities (including general capital assets, infrastructure and related debt) are included on the statement of net assets. Previously, the current financial resources measurement focus was used whereby only current assets and current liabilities were included on the financial statements.

The previous requirement for fund financial statements is further modified to present information for individual major funds rather than by fund type. Nonmajor funds are presented as a total in a single column.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

I. Change in Accounting Principles - Cont'd.

Due to the significance of the above changes and changes to fund structure, it was not practical to present comparative data for the 2004 fiscal year in the basic financial statements.

J. Budgets and Budgetary Accounting

The budgets have been adopted on a basis consistent with generally accepted accounting principles for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Project Fund and Proprietary Fund.

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. Prior to the first Monday of March, every department or board submits to the city manager an itemized estimate of its expected income and expenditures during the next fiscal year for the department or activities under its control. The city manager then prepares a proposed budget. A public hearing is then held regarding the proposed budget.
2. Not later than sixty days prior to July 1, a recommended budget within the tax limit and other revenue sources of the City is presented to the city council. The annual appropriations bill must then be passed no later than thirty days prior to July 1.
3. The city manager may transfer budget amounts between departments within any fund and shall report such transfers to the council in writing in a timely manner. However, any revisions that alter the total expenditures of any fund must be approved by the city council.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Project Fund and Proprietary Funds. Budget comparisons with actual for the general fund and major special revenue funds are presented in the required supplemental information.

K. Economic Development and Housing Rehabilitation Loan Receivable

The City has received grant funds for economic development and housing rehabilitation loan programs to various businesses and individuals. The City records a loan receivable when the loan has been made and funds have been disbursed.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

K. Economic Development and Housing Rehabilitation Loan Receivable - Cont'd.

It is the City's policy to record revenue when the initial loan is made from the grant funds. Interest received from loan repayments is recognized as revenue when received in cash.

NOTE 2 - CASH AND INVESTMENTS

The City maintains various cash and investment accounts that are available for use by all funds. Each fund's portion of these accounts is displayed on the financial statements as "Cash and Investments".

Invested cash consists of deposits and investments that are restricted by Michigan statutes to the following:

Time deposits, direct obligations of the United States Treasury, United States repurchase agreements, Bankers Alliances of U.S. Banks, Commercial paper, in certain mutual funds, and in investment pools.

The City's police and fire retirement fund's investments are held in trust. State statutes authorize the City's retirement fund to invest in stocks, bonds, certificates of deposit, real estate, certain annuity contracts and real or personal property.

The carrying amount of the City's cash and investment totaled \$17,599,657 on June 30, 2004 as summarized below:

Petty cash funds	\$ 2,400
Deposits with financial institutions	1,380,621
Investments	<u>16,216,636</u>
Total	<u>\$ 17,599,657</u>
Per statement of net assets	\$ 8,769,990
Per fiduciary fund statement of net assets-	
Pension trust fund	8,824,406
Agency fund	<u>5,261</u>
Total	<u>\$ 17,599,657</u>

Deposits - Deposits with financial institutions are insured by the federal deposit insurance corporation (FDIC) in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts at year-end, the bank balance of the City's deposits totaled \$1,832,027. Of this amount, \$374,448 was insured by FDIC insurance, leaving a balance of \$1,457,579 uninsured.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 2 - CASH AND INVESTMENTS (CONT'D.)

Investments - The City's investments are categorized below in accordance with GASB Statement No. 3 in order to provide an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent, in the City's name. Category 2 includes uninsured and unregistered investments of which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty.

	<u>Category</u>			<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>
<u>Operating funds</u>				
US government bonds	\$61,000	\$ -	\$ 440,602	\$ 501,602
US government agencies	-	-	1,079,563	1,079,563
Common stock	1,000	-	38,434	39,434
<u>Pension fund</u>				
US government bonds	-	-	312,973	312,973
US government agencies	-	-	1,777,442	1,777,442
Common stock	-	-	3,787,953	3,787,953
Mutual fund equity	-	-	620,826	620,826
Corporate bonds	-	-	2,094,304	2,094,304
Total	<u>\$62,000</u>	<u>\$ 0-</u>	<u>\$10,152,097</u>	<u>\$10,214,097</u>
Investment not subject to categorization				
Money market mutual funds				<u>6,002,539</u>
Total investments				<u>\$16,216,636</u>

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 3 - RESTRICTED ASSETS

Restricted assets on June 30, 2004 consisted of cash and investments of \$1,805,310 held for the following purposes:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
Bond redemption account	\$ -	\$ 211,650	\$ 211,650
Bond reserve account	-	245,037	245,037
Replacement account	<u>145,855</u>	<u>1,202,768</u>	<u>1,348,623</u>
Total restricted cash and investments	<u>\$ 145,855</u>	<u>\$1,659,455</u>	<u>\$1,805,310</u>

Redemption: used to segregate resources accumulated for debt service payments over the next twelve months.

Reserve: used to report resources set aside to make up potential future deficiencies in the redemption account.

Replacement: used for significant water and wastewater treatment mechanical equipment replacement.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,967,995	\$ -	\$ -	\$ 1,967,995
Capital assets, being depreciated:				
Buildings	\$ 3,573,303	\$ 24,734	\$ -	\$ 3,598,037
Improvements	651,308	22,380	-	673,688
Machinery and equipment	3,834,966	129,147	227,744	3,736,369
Infrastructure	<u>22,849,434</u>	<u>1,604,628</u>	<u>-</u>	<u>24,454,062</u>
Subtotal	\$30,909,011	\$1,780,889	\$ 227,744	\$32,462,156
Less accumulated depreciation	<u>8,814,347</u>	<u>848,150</u>	<u>197,775</u>	<u>9,464,722</u>
Total capital assets, being depreciated, net	<u>\$22,094,664</u>	<u>\$ 932,739</u>	<u>\$ 29,969</u>	<u>\$22,997,434</u>
Governmental activities capital assets, net	<u>\$24,062,659</u>	<u>\$ 932,739</u>	<u>\$ 29,969</u>	<u>\$24,965,429</u>

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 4 - CAPITAL ASSETS (CONT'D.)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 521,389	\$ 884	\$ -0-	\$ 522,273
Capital assets, being depreciated:				
Building	\$16,954,437	\$ 23,893	\$ -	\$16,978,330
Improvements other than buildings	15,263,536	360,775	-	15,624,311
Machinery and equip.	847,772	16,601	19,006	845,367
Subtotal	\$33,065,745	\$ 401,269	\$ 19,006	\$33,448,008
Less accumulated depreciation	<u>10,767,874</u>	<u>797,257</u>	<u>19,006</u>	<u>11,546,125</u>
Total capital assets, being depreciated, net	<u>\$22,297,871</u>	<u>\$ (395,988)</u>	<u>\$ -0-</u>	<u>\$21,901,883</u>
Business type activities				
Capital assets, net	<u>\$22,819,260</u>	<u>\$ (395,104)</u>	<u>\$ -0-</u>	<u>\$22,424,156</u>

Depreciation expense was charged to functions of the City as follows:

Governmental activities	\$ 35,655
General government	103,605
Public safety	595,467
Highway streets and bridge	20,401
Sanitation	86,084
Culture and recreation	6,938
Cemetery	
Total depreciation expense - Governmental activities	<u>\$ 848,150</u>
Business-Type activities	\$ 318,463
Water treatment utility	306,244
Wastewater treatment utility	138,455
Marina	34,095
River park	
Total depreciation expense - Business-type activities	<u>\$ 797,257</u>

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables between individual fund of the City, as reported in the fund financial statements, as of June 30, 2004 are detailed below:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Operating accounts between funds		
General fund	\$ 587,413	\$ 150,450
Special revenue funds		
Major streets	247,757	336,397
Local streets	197,001	243,064
Cemetery	93,948	54,821
Spies Public Library	-	91,018
Downtown development	-	3,545
Community development	-	4,271
Neighborhood preservation project	-	13,474
Economic development G.L.P.F.	-	500
Water Front festival	-	1,991
Debt service		
Spies Public Library	-	11
Street construction	352	83
Capital projects		
Street construction	591,165	64,590
Spies field	105	-
Permanent fund		
Cemetery perpetual care	3,150	93,948
Proprietary funds		
Water treatment utility	6,521	66,290
Wastewater treatment utility	-	614,286
Marina	-	550
River park	-	12,429
Industrial aid	32,083	-
Fiduciary fund		
Employee flexible benefits	-	2,477
Tax collection fund	-	5,300
Total	<u>\$1,759,495</u>	<u>\$1,759,495</u>

Interfund transfers for the year ended June 30, 2004 were as follows:

	<u>Transfers in</u>			
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Transfers out				
General fund	\$ 10,655	\$ 266,875	\$ 299,728	\$ 577,258
Major streets	-	77,380	151,464	228,844
Street construction	342,085	145,251	-	487,336
Nonmajor				
governmental fund	-	-	47,906	47,906
Total	<u>\$ 352,740</u>	<u>\$ 489,506</u>	<u>\$ 499,098</u>	<u>\$1,341,344</u>

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 6 - DEFERRED REVENUES

Governmental funds report deferred revenue in connection with receivables for resources that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet recognizable. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent personal property taxes	\$ 38,999	\$ -
General fund		
Postponed special assessments installments	53,622	-
General fund	87,735	-
Major streets	9,827	-
Local streets	63,830	-
Wastewater treatment utility		
Lease installment	606,550	-
Menominee Paper debt		
Federal and state program	-	86,339
Nonmajor governmental funds		
Fees collected in advance	-	6,250
General fund	-	5,490
Water treatment utility	-	229,936
Marina	-	20,202
Nonmajor governmental funds		
Total	<u>\$ 860,563</u>	<u>\$ 348,217</u>

Postponed special assessments are generally collected on annual installments from one to five years, while certain others have been deferred until the property is sold.

Lease installment, Menominee Paper Company debt service fund, is an agreement with a local industry to purchase a wastewater facility that was built for the Paper Company.

Federal and state programs, when the owner's property is sold, this amount is returned to the City.

Fees collected in advance and monies collected prior to June 30, 2004 for the fiscal year ending June 30, 2005.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 7 - LONG-TERM DEBT

The following is a summary of changes in long-term obligations of the City for the year ended June 30, 2004:

	<u>Outstanding 7/01/03</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 6/30/04</u>	<u>Due within One Year</u>
Governmental activities:					
General obligation debt-					
bonds	\$5,915,000	\$ 965,000	\$1,560,000	\$5,320,000	\$ 670,000
Promissory notes	640,792	-	96,155	544,637	101,135
Compensated absences	224,078	191,082	179,027	236,133	-
Governmental activities					
Long-term liability	<u>\$6,779,870</u>	<u>\$1,156,082</u>	<u>\$1,835,182</u>	<u>\$6,100,770</u>	<u>\$ 771,135</u>
Business-type					
activities:					
Revenue bonds	\$4,435,000	\$ -	\$ 332,000	\$4,103,000	\$ 372,000
Promissory notes	400,000	-	42,720	357,280	44,621
Business-type activities					
Long-term liabilities	<u>\$4,835,000</u>	<u>\$ -0-</u>	<u>\$ 374,720</u>	<u>\$4,460,280</u>	<u>\$ 416,621</u>

Total interest paid during the year on long-term debt totaled \$446,099.

General Obligation Debt

General obligation debt currently outstanding is detailed as follows:

Bonds

\$4,500,000 issued 3/1/2001; \$215,000 to \$515,000 due annually through 2012; interest 3.4% to 4.3%	\$3,785,000
\$855,000 issued 9/27/2001; \$5,000 to \$290,000 due annually through 2006; interest 3% to 4.25%	570,000
\$965,000 issued 9/4/2003; \$55,000 to \$100,000 due annually through 2016; interest 2.25% to 4.550%	965,000
Total bonds	<u>\$5,320,000</u>

Notes

\$97,951 issued 9/15/01; \$22,923 to \$25,368 due annually through 2005; interest 5.25%	\$ 50,878
\$534,549 issued 9/16/01; \$53,785 to \$79,126 due annually through 2009; interest 5.29%	421,527
\$85,000 issued 8/30/02; \$12,767 to \$15,645 due annually through 2008; interest 4.150%	72,232
Total promissory notes	<u>\$ 544,637</u>
Total general obligation debt	<u>\$5,864,637</u>

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 7 - LONG-TERM DEBT (CONT'D.)

Annual principal and interest maturities of the outstanding general obligation debt of \$5,864,637 on June 30, 2004 are as detailed below:

<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 771,135	\$ 235,821	\$1,006,956
2006	808,906	204,168	1,013,074
2007	517,535	171,107	688,642
2008	546,737	150,140	696,877
2009	576,154	127,441	703,595
2010 - 2014	2,359,170	276,908	2,636,078
2015 - 2017	<u>285,000</u>	<u>19,794</u>	<u>304,794</u>
Totals	<u>\$5,864,637</u>	<u>\$1,185,379</u>	<u>\$7,050,016</u>

Revenue Bonds and Notes

Revenue bonds and notes debt service requirements are financed from operations of the enterprise funds. Revenue bonds outstanding on June 30, 2004 totaled \$4,460,280 and were composed of the following issues:

Wastewater treatment utility - Bonds

\$1,155,000 issued 11/1/91; \$120,000 to \$125,000 due annually through 2006; interest 5% to 6.45%	\$ 245,000
\$1,520,000 issued 9/24/92; \$60,000 to \$90,000 due annually through 2013; interest 2%	760,000
\$1,665,000 issued 9/23/98; \$20,000 to \$88,000 due annually through 2017; interest 4.5%	1,557,000
\$300,000 issued 9/23/98; \$2,000 to \$18,000 due annually through 2038; interest 4.5%	291,000
\$800,000 issued 11/1/92; \$100,000 due annually through 2005	200,000

Marina - bonds

\$1,250,000 issued 5/1/99; \$35,000 to \$125,000 due monthly through 2016; interest 4.2% to 5%	<u>1,050,000</u>
--	------------------

Total bonds

\$4,103,000

Water treatment and Wastewater treatment - Notes

\$400,000 issued 8/30/2002; \$42,720 to \$57,942 due annually through 2010; interest 4.45%	<u>\$ 357,280</u>
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Total revenue bonds and notes

\$4,460,280

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 7 - LONG-TERM DEBT (CONT'D.)

Annual principal and interest maturities of the outstanding revenue bonds and note debt of \$4,460,280 on June 30, 2004 are detailed below:

Water treatment, wastewater treatment and Marina, combined amortization of debt.

Due	Principal	Interest	Total
2005	\$ 416,621	\$ 185,801	\$ 602,422
2006	430,606	166,036	596,642
2007	208,681	148,199	356,880
2008	216,847	140,778	357,625
2009	226,110	133,105	359,215
2010 - 2014	1,039,415	541,459	1,580,874
2015 - 2019	563,000	361,224	924,224
2020 - 2024	255,000	283,905	538,905
2025 - 2029	315,000	221,200	536,200
2030 - 2034	398,000	143,505	541,505
2035 - 2039	391,000	44,730	435,730
Totals	<u>\$4,460,280</u>	<u>\$2,369,942</u>	<u>\$6,830,222</u>

NOTE 8 - FUND EQUITY

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - Amount of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets - Amount of net assets that are subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - Net assets that are neither classified as restricted nor as invested in capital assets, net of related debt.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 8 - FUND EQUITY (CONT'D.)

Net assets of the governmental activities reported on the government-wide statement of net assets at June 30, 2004 include the following:

Invested in capital assets, net of related debt	\$ 2,490,268
Land	21,250,055
Buildings and improvements	4,581,736
Machinery and equipment	40,078,373
Infrastructure	(21,010,847)
Less: accumulated depreciation	<u>(10,930,738)</u>
Less: related long-term debt outstanding	
Total invested in capital assets, net of related debt	<u>\$ 36,458,847</u>
Restricted	\$ 618,478
Debt service	1,348,623
Plant replacement	2,399,700
Street construction	<u>1,110,401</u>
Permanent fund	
Total restricted	<u>\$ 5,477,202</u>
Unrestricted	<u>\$ 6,055,454</u>

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 8 - FUND EQUITY - (CONT'D.)

Fund Statements

In the fund financial statements, portions of governmental fund balances are reserved and not available for appropriation or are legally restricted for use for a specific purpose. At June 30, 2004, fund balance was reserved as follows:

General fund	\$ 165,285
Reserved for inventory and prepaid items	5,676
Reserved for plant a tree	<u>\$ 170,961</u>
Total general fund	
Special revenue funds	\$ 12,850
Cemetery	21,391
Library	189,404
Downtown development	935,605
Long-term loans receivable	<u>1,200</u>
Prepaid items	
Total special revenue funds	<u>\$1,160,450</u>
Debt service funds	\$ 122,479
Spies Public Library	<u>39,312</u>
Street construction	
Total debt service funds	<u>\$ 161,791</u>
Capital project fund	<u>\$2,399,700</u>
Street construction	
Permanent fund	<u>\$1,110,401</u>
Cemetery perpetual care	

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 8 - FUND EQUITY (CONT'D.)

Also in the fund financial statements, portions of governmental fund balances have been designated to represent tentative management plans that are subject to change. At June 30, 2004, fund balance was designated as follows:

General Fund	
Designated	
Encumbered - Insurance due 7/1/04	\$ 207,396
Condemnation fund	16,700
Swimming pier equipment	1,100
Equipment fund - highway	41,567
Circle Lane	87,951
Fuel pump	33,925
Henes Park pavilion	5,199
Landfill pump maintenance	7,000
City hall maintenance	45,086
Alleys	13,000
Parks special projects	44,161
Bricks	3,751
Spies field	32,131
Henes Park project	38,432
Rescue squad	16,000
Recreation department	8,827
Watertower park improvements	10,000
Health insurance	205,736
Boat launches	10,771
Capital outlay - Engineering dept	4,215
Fire department - apparatus room	10,000
Donations - DARE	3,227
Donations - flags	200
	<u>\$ 846,375</u>

NOTE 9 - RETIREMENT COMMITMENTS

City employees are covered by either the Policemen and Firemen Retirement System (PFRS) or the Municipal Employees' Retirement System (MERS).

A. Policemen and Firemen Retirement System (PFRS)

Police and Firemen Retirement System (PFRS) is a single-employer defined benefit pension plan administered by the City of Menominee. The plan is accounted for as a separate pension trust fund in the City's financial statements. The PFRS is authorized and operated under state law, Act 345 of the Public Acts of 1937, as amended.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 9 - RETIREMENT COMMITMENTS (CONT'D.)

SERVICE RETIREMENT	
<u>Eligibility</u>	<u>Amount</u>
Police: Any age with 20 or more years of service or age 60 regardless of service.	Straight life pension equals 2.5% of 3 year average final compensation (AFC) times years of service.
Fire: Age 50 with 25 or more years of service or age 60 regardless of service.	Straight life pension equals 2.75% of 3 year AFC times years of service - Lump sum payments for unused vacation are included in AFC for Firefighters.

DEFERRED RETIREMENT

10 or more years of service.

Computed as service retirement but based upon service, AFC and benefit in effect at termination. Benefit begins at date retirement would have occurred had member remained in employment.

DEATH AFTER RETIREMENT SURVIVOR'S PENSION

Payable to a surviving spouse, if any, upon the death of a retired member who was receiving a straight life pension which was effective July 1, 1975 or later.

Spouse's pension equals 60% of the straight life pension the deceased retirant was receiving.

NON-DUTY DEATH-IN-SERVICE SURVIVOR'S PENSION

Payable to a surviving spouse, if any, upon the death of a member with 20 or more years of service.

Accrued straight life pension actuarially reduced in accordance with an Option I election.

DUTY DEATH-IN-SERVICE SURVIVOR'S PENSION

Payable upon the expiration of worker's compensation to the survivors of a member who died in the line of duty.

Same amount that was paid by worker's compensation.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 9 - RETIREMENT COMMITMENTS (CONT'D.)

NON-DUTY DISABILITY

Payable upon the total and permanent disability of a member with 5 or more years of service.

To Age 55: 1.5% of AFC times years of service. At Age 55: Same as Service Retirement Pension.

DUTY DISABILITY

Payable upon the total and permanent disability of a member in the line of duty.

To Age 55: 50% of AFC.
At Age 55: Same as Service Retirement Pension with service credit from date of disability to Age 55.

POST-RETIREMENT INCREASES

A one-time bonus of \$350 was paid to persons receiving benefits as of December 1, 1988.

MEMBER CONTRIBUTIONS

5.3% Police
5.0% Fire

Upon retirement, a Fire member may withdraw their accumulated contributions with interest and receive a correspondingly reduced lifetime benefit.

CITY'S CONTRIBUTIONS

3.65% Police
5.71% Fire

ACTUARIAL ACCRUED LIABILITY

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of June 30, 2003. Significant actuarial assumptions used in determining the actuarial accrued liability included a) a rate of return on the investment of present and future assets of 8.0%, b) projected salary increases of 5% per year compounded annually, attributable to inflation and c) additional salary increases of 5.2% to 9% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the June 30, 2003 actuarial valuation to determine the annual employer contribution amounts. The individual entry-age actuarial cost method was used to determine the entries at disclosure.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 9 - RETIREMENT COMMITMENTS (CONT'D.)

GASB 25 INFORMATION

Actuarial accrued liability:	
To retirants and beneficiaries	\$ 3,821,037
To present active members:	
Member contributions	576,102
Employer financed portion	<u>3,866,340</u>
Total actuarial accrued liability	\$ 8,263,479
Actuarial value of assets	<u>9,438,016</u>
Unfunded (overfunded) actuarial accrued liability	<u>\$(1,174,537)</u>

GASB 27 INFORMATION

Contributions required and contributions made - The funding policy of the plan provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended June 30, 2003 were determined using the individual entry-age actuarial cost method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of thirty years. The following table provides a schedule of contribution amounts and percentages for recent years.

Year ended <u>June 30,</u>	Annual Required <u>Contribution</u>	Percent <u>Contributed</u>
1999	\$ 64,985	100%
2000	61,725	100%
2001	59,524	100%
2002	62,238	100%
2003	72,637	100%

The amount shown above as the annual required contribution is the amount actually contributed in each fiscal year. These amounts are determined by applying the computed employer percent of payroll contribution rate to the actual pay during the fiscal year.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 9 - RETIREMENT COMMITMENTS (CONT'D.)

The employer portion of the contribution for the fiscal year ending June 30, 2004 was \$91,467.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
6/30/1999	\$8,166,375	\$6,808,181	\$1,358,194	120%	\$1,086,706	-
6/30/2000	8,681,934	7,153,496	1,528,438	121%	1,229,250	-
6/30/2001	9,092,177	7,581,435	1,510,742	120%	1,339,922	-
6/30/2002	9,347,631	7,737,906	1,609,725	121%	1,391,279	-
6/30/2003	9,438,016	8,263,479	1,174,537	114%	1,397,778	-

Membership of the plan consists of the following at June 30, 2003:

Retirees and beneficiaries receiving benefits	26
Active plan members	<u>32</u>
Total	<u>58</u>

B. Michigan Municipal Employees Retirement System (MERS)

PLAN DESCRIPTION

The City of Menominee contributes to the Michigan Municipal Employees Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan. The plan issues a stand-alone financial report.

All full-time and certain part-time City employees, except for Police and Fire employees, who are covered exclusively under the Police and Fireman Retirement System, are eligible to participate in the MERS. Benefits vest after 10 years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service. Employees with 15 years of credited service may retire at or after age 55 with reduced benefits. Employees with 25 years or more of credited service may retire at or after age 50 with reduced benefits. Employees with 30 years of credited service may retire at or after age 55 with full benefits. The annual retirement benefits of non-union, Teamsters, and Department Heads have a benefit which calls for benefits equal to 2 to 2.5 percent of average annual compensation for the last three years of employment multiplied by years of credited service with a maximum benefit of 80 percent of final average compensation.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 9 - RETIREMENT COMMITMENTS (CONT'D.)

ACTUARIAL ACCRUED LIABILITY

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the actuarial accrued liability include a) a rate of return on the investment of present and future assets of 8.0%, b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and c) additional salary increases of 0.00% to 4.16% per year, depending on age, attributable to merit and longevity.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal cost method was used to determine the entries at disclosure.

GASB 25 INFORMATION (AS OF 12/31/03)

Actuarial accrued liability:

Retirees and beneficiaries currently receiving benefits	\$ 2,789,252
Terminated employees not yet receiving benefits	235,527
Current employees -	
Accumulated employee contributions including allocated investment income	166,503
Employer financed	<u>3,292,745</u>
Total actuarial accrued liability	\$ 6,484,027
Net assets available for benefits at actuarial value	<u>5,842,880</u>
(Market value is \$5,335,179)	
Unfunded (Overfunded) actuarial accrued liability	<u>\$ 641,147</u>
Fiscal year beginning	9/01/05
Annual required contribution (ARC)	<u>\$ 150,732 *</u>
Amortization factor used - Underfunded liabilities (30 years)	0.053632

*Based on valuation payroll, but the actual required contribution will be based on current monthly payroll (during the fiscal year beginning September 1, 2005) times the computed employer contribution rate.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 9 - RETIREMENT COMMITMENTS (CONT'D.)

GASB 27 INFORMATION

The employer contribution rate has been determined based on the entry age normal cost method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry-age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. The following table provides a schedule of contribution amounts and percentages of recent years.

<u>Year ended</u> <u>December 31,</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
1999	\$ -	100%
2000	-	100%
2001	20,231	100%
2002	8,868	100%
2003	52,399	100%

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>(a)</u> <u>Actuarial</u> <u>Value</u> <u>of Assets</u>	<u>(b)</u> <u>Entry Age</u> <u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>(b-a)</u> <u>Unfunded</u> <u>Accrued</u> <u>Liability</u> <u>(UAL)</u>	<u>(a/b)</u> <u>Funded</u> <u>Ratio</u>	<u>(c)</u> <u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>[(b-a)/c]</u> <u>UAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u>
1999	\$5,498,655	\$4,800,831	\$ (697,824)	115%	\$821,873	85%
2000	5,769,112	5,461,037	(308,075)	106%	928,193	33%
2001	5,884,383	5,921,115	36,732	99%	530,787	7%
2002	5,727,331	6,126,064	398,733	93%	551,087	72%
2003	5,842,880	6,484,027	641,147	90%	616,522	104%

Membership of the plan consists of the following at December 31, 2003:

Active members	50
Vested former members	12
Retirees and beneficiaries	45
Total	<u>107</u>

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 10 - AGREEMENT WITH A LOCAL INDUSTRY

The City was treating the wastewater produced by the Menominee Paper Company, an industry located within the municipality. Due to the type of waste and the large volume generated by Menominee Paper Company, treatment plant expansion and improvements were necessary in order to properly treat the waste in accordance with government guidelines. Engineers determined the best method to achieve the plant expansion was to construct a wastewater treatment plant on the local industry's property.

In order to effect the construction of the new plant at the local industry site, the City entered into an agreement with the local industry. This agreement called for the City to issue \$3,120,000 of general obligation bonds to partially finance the project. The balance of construction costs would be provided by the local industry.

Upon completion, the City would then lease the new wastewater facilities to the local industry; and the local industry would be responsible for all operation, maintenance and administrative costs for operating the facility.

The local industry lease payments consist of monthly payments to the City so that the City can make its required principal and interest payments on the \$3,120,000 bond issue referred to above. Upon payment of all the bonds in this manner, ownership of the project will be transferred to Menominee Paper Company.

NOTE 11- CONTRACTUAL AGREEMENTS

On September 1, 2000, the City of Menominee entered into an operation and maintenance agreement for water and wastewater treatment facilities for a period of five years. The annual cost for the fiscal year ended 6/30/04 was \$600,346.

On September 1, 2000, the City of Menominee entered into an agreement for the operation of the Landfill Purge Well System for a five year period. The annual cost for the fiscal year ended 6/30/04 was \$9,616.

On September 1, 1995, the City of Menominee entered into a disposal contract with United Waste Systems, Inc. The contract expires August 31, 2005. The price of \$35 a ton and the base cost will be increased 4% annually on September 1. The actual cost for the fiscal year ended June 30, 2004 was \$147,248.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 11 - CONTRACTUAL AGREEMENTS (CONT'D.)

On October 1, 1998, the City of Menominee entered into an agreement for the operation of the marina for a ten year period with the M & M Yacht Club, Inc. The yearly cost for this service is \$20,000.

The City has entered into various construction contracts to reconstruct streets, water plant roof and municipal complex roof. The total contract costs are \$685,816 to be paid by the street construction fund, water treatment utility and the general fund.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; and health care of its employees. All risks are covered through the purchase of commercial insurance. Settled claims have not exceeded the commercial coverage in any of the past three years.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

From time to time, the City is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the City attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position or results of operations.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

NOTE 14 - ENVIRONMENTAL MATTERS - LANDFILL POST-CLOSURE CARE COST

Underground water contamination had been discovered at the City's closed landfill site. The City has installed a well monitoring system. The environmental protection agency has signed off on the corrective action taken by the City. The present value of total operation and maintenance cost for the next thirty years has been estimated at \$691,760. The future capital and operation and maintenance cost have not been included in the City's governmental fund statements since the City's future costs have not yet been determined.

CITY OF MENOMINEE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 15 - DEFERRED COMPENSATION PLAN

City of Menominee offers all City of Menominee employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in City of Menominee's financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF MENOMINEE, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Taxes	\$2,697,375	\$2,702,375	\$2,712,132	\$ 9,757
Licenses and permits	97,100	121,100	143,257	22,157
Intergovernmental	1,292,500	1,292,500	1,279,479	(13,021)
Charges for services	4,000	4,000	3,750	(250)
Fines and forfeits	38,100	38,100	45,893	7,793
Other	132,742	165,742	324,428	158,686
Total revenues	\$4,261,817	\$4,323,817	\$4,508,939	\$ 185,122
Expenditures:				
Current:				
General government	\$ 720,366	\$ 759,366	\$ 727,139	\$ 32,227
Public safety	2,322,328	2,381,478	2,347,633	33,845
Highway, streets and bridges	228,120	228,120	191,082	37,038
Sanitation	351,853	359,253	335,602	23,651
Culture and recreation	321,751	322,151	287,397	34,754
Other functions	138,326	146,276	116,195	30,081
Capital outlay	232,500	239,234	283,252	(44,018)
Debt service:				
Principal retirement	83,388	83,388	96,155	(12,767)
Interest and fiscal charges	29,746	29,746	33,273	(3,527)
Total expenditures	\$4,428,378	\$4,549,012	\$4,417,728	\$ 131,284
Excess (deficiency) of revenues over expenditures	\$ (166,561)	\$ (225,195)	\$ 91,211	\$ 316,406
Other financing sources (uses):				
Operating transfers in	\$ 331,300	\$ -	\$ -	\$ -
Operating transfers (out)	(299,729)	(546,729)	(577,258)	(30,529)
Total other financing sources (uses)	\$ 31,571	\$ (546,729)	\$ (577,258)	\$ (30,529)
Excess (deficiency) of revenue and other financing sources over expenditures and other uses	\$ (134,990)	\$ (771,924)	\$ (486,047)	\$ 285,877
Fund balance - Beginning of year	2,357,908	2,357,908	2,357,908	-
Fund balance - End of year	\$2,222,918	\$1,585,984	\$1,871,861	\$ 285,877

CITY OF MENOMINEE, MICHIGAN

MAJOR STREET FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Taxes	\$ 140,000	\$ 140,000	\$ 151,463	\$ 11,463
Intergovernmental	445,000	445,000	963,189	518,189
Other	20,000	20,000	19,572	(428)
Total revenues	<u>\$ 605,000</u>	<u>\$ 605,000</u>	<u>\$1,134,224</u>	<u>\$ (529,224)</u>
Expenditures:				
Highway, streets and bridges	\$ 341,000	\$ 341,000	\$ 521,489	\$ (180,489)
Capital outlay	1,000,000	1,000,000	1,031,023	(31,023)
Total expenditures	<u>\$1,341,000</u>	<u>\$1,341,000</u>	<u>\$1,552,512</u>	<u>\$ (211,512)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 736,000</u>	<u>\$ (736,000)</u>	<u>\$ (418,288)</u>	<u>\$ 317,712</u>
Other financing sources (uses):				
Operating transfers in	\$ 976,000	\$ 976,000	\$ 352,740	\$ (623,260)
Operating transfers out	(240,000)	(240,000)	(228,844)	11,156
Total other financing sources (uses)	<u>\$ 736,000</u>	<u>\$ 736,000</u>	<u>\$ 123,896</u>	<u>\$ (612,104)</u>
Excess (deficiency) of revenue and other financing sources over expenditures and other uses	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (294,392)</u>	<u>\$ (294,392)</u>
Fund balance - Beginning of year	<u>346,737</u>	<u>346,737</u>	<u>346,737</u>	<u>-</u>
Fund balance - End of year	<u>\$ 346,737</u>	<u>\$ 346,737</u>	<u>\$ 52,345</u>	<u>\$ (294,392)</u>

CITY OF MENOMINEE, MICHIGAN

LOCAL STREET FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues:				
Intergovernmental	\$ 150,000	\$ 150,000	\$ 198,132	\$ 48,132
Other	<u>12,000</u>	<u>12,000</u>	<u>10,331</u>	<u>(1,669)</u>
Total revenues	\$ 162,000	\$ 162,000	\$ 208,463	\$ 46,463
Expenditures:				
Highway, streets and bridges	\$ 118,500	\$ 188,500	\$ 275,782	\$ (87,282)
Capital outlay	<u>224,000</u>	<u>524,000</u>	<u>466,614</u>	<u>57,386</u>
Total expenditures	\$ 342,500	\$ 712,500	\$ 742,396	\$ (29,896)
Excess (deficiency) of revenues over expenditures	\$ (180,500)	\$ (550,500)	\$ (533,933)	\$ 16,567
Other financing sources (uses):				
Operating transfers in	\$ 124,000	\$ 524,000	\$ 489,506	\$ (34,494)
Total other financing sources (uses)	\$ 124,000	\$ 524,000	\$ 489,506	\$ (34,494)
Excess (deficiency) of revenue and other financing sources over expenditures and other uses	\$ (56,500)	\$ (26,500)	\$ (44,427)	\$ (17,927)
Fund balance - Beginning of year	\$ 74,952	\$ 74,952	\$ 74,952	\$ -
Fund balance - End of year	\$ 18,452	\$ 48,452	\$ 30,525	\$ (17,927)

SUPPLEMENTAL INFORMATION

CITY OF MENOMINEE, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Taxes:				
Assessed value:				
Real property	\$1,965,441	\$1,965,441	\$2,093,073	\$ 127,632
Personal property	702,184	702,184	583,489	(118,695)
Total assessed value	<u>\$2,667,625</u>	<u>\$2,667,625</u>	<u>\$2,676,562</u>	<u>\$ 8,937</u>
Taxes other than assessed value:				
In lieu of taxes - Housing	\$ 8,000	\$ 8,000	\$ 8,372	\$ 372
Mobile home	750	750	924	174
Total taxes other than assessed value	<u>\$ 8,750</u>	<u>\$ 8,750</u>	<u>\$ 9,296</u>	<u>\$ 546</u>
Penalties and interest on taxes	<u>\$ 21,000</u>	<u>\$ 26,000</u>	<u>\$ 26,274</u>	<u>\$ 274</u>
Total taxes	<u>\$2,697,375</u>	<u>\$2,702,375</u>	<u>\$2,712,132</u>	<u>\$ 9,757</u>
Licenses and permits:				
Business licenses and permits:				
CATV franchise and fees	\$ 72,000	\$ 96,000	\$ 121,360	\$ 25,360
Taxi licenses	100	100	100	-
Vendor permits	250	250	305	55
Total licenses and permits	<u>\$ 72,350</u>	<u>\$ 96,350</u>	<u>\$ 121,765</u>	<u>\$ 25,415</u>
Nonbusiness licenses and permits:				
Building	\$ 15,000	\$ 15,000	\$ 16,013	\$ 1,013
Occupancy	2,500	2,500	2,900	400
Rental housing inspections	7,000	7,000	2,180	(4,820)
Dog and cat	-	-	39	39
Zoning	250	250	360	110
Total nonbusiness licenses and permits	<u>\$ 24,750</u>	<u>\$ 24,750</u>	<u>\$ 21,492</u>	<u>\$ (3,258)</u>
Total licenses and permits	<u>\$ 97,100</u>	<u>\$ 121,100</u>	<u>\$ 143,257</u>	<u>\$ 22,157</u>
Intergovernmental revenues:				
State grants:				
Michigan justice training	\$ 4,500	\$ 4,500	\$ 3,430	\$ (1,070)
State shared revenue:				
Income sales and use tax	\$1,280,000	\$1,280,000	\$1,237,601	\$ (42,399)
Liquor license	8,000	8,000	7,919	(81)
Maintenance fee	-	-	30,529	30,529
Total state shared revenue	<u>\$1,288,000</u>	<u>\$1,288,000</u>	<u>\$1,276,049</u>	<u>\$ (11,951)</u>
Total intergovernmental revenues	<u>\$1,292,500</u>	<u>\$1,292,500</u>	<u>\$1,279,479</u>	<u>\$ (13,021)</u>
Charges for service - fire runs and protection	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 3,750</u>	<u>\$ (250)</u>
Fines and forfeits:				
Parking violations	\$ 3,000	\$ 3,000	\$ 2,560	\$ (440)
District court	35,000	35,000	43,333	8,333
Animal control	100	100	-	(100)
Total fines and forfeits	<u>\$ 38,100</u>	<u>\$ 38,100</u>	<u>\$ 45,893</u>	<u>\$ 7,793</u>

CITY OF MENOMINEE, MICHIGAN

GENERAL FUND
 SCHEDULE OF REVENUES - BUDGET AND ACTUAL - CONTINUED
 Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Other revenues:				
Interest on investments	\$ 40,000	\$ 40,000	\$ 18,822	\$ (21,178)
Interest on special assessments	-	-	1,938	1,938
Rent - Real estate	4,770	4,770	4,572	(198)
Rent - Equipment	-	-	111,916	111,916
Sale of assets	9,500	9,500	29,896	20,396
Special assessments	-	-	16,436	16,436
Boat Launch fees	-	-	5,313	5,313
Copier charges	5,000	5,000	4,675	(325)
Recycling	3,000	9,000	8,896	(104)
Refunds/rebates	-	18,000	21,904	3,904
Other	3,500	10,000	18,366	8,366
Reimbursements-Utility	52,972	55,472	55,672	200
Donations	-	-	8,260	8,260
Gas/Diesel sales	-	-	5,022	5,022
Recreation	14,000	14,000	12,740	(1,260)
Total other revenues	<u>\$ 132,742</u>	<u>\$ 165,742</u>	<u>\$ 324,428</u>	<u>\$ 158,686</u>
Total revenues	<u>\$4,261,817</u>	<u>\$4,323,817</u>	<u>\$4,508,939</u>	<u>\$ 185,122</u>

CITY OF MENOMINEE, MICHIGAN

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
General government:				
City council:				
Salaries	\$ 8,000	\$ 8,000	\$ 8,001	\$ (1)
Office supplies	100	100	27	73
Publications	7,000	7,000	3,188	3,812
Travel	-	-	860	(860)
Total city council	<u>\$ 15,100</u>	<u>\$ 15,100</u>	<u>\$ 12,076</u>	<u>\$ 3,024</u>
Judicial - Other labor	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 467</u>	<u>\$ 2,533</u>
City mayor:				
Salaries	\$ 1,250	\$ 1,250	\$ 1,250	\$ -
Travel	1,000	1,000	567	433
Total city mayor	<u>\$ 2,250</u>	<u>\$ 2,250</u>	<u>\$ 1,817</u>	<u>\$ 433</u>
City manager:				
Salaries	\$ 93,465	\$ 93,465	\$ 92,633	\$ 832
Longevity	1,054	1,054	1,054	-
Office supplies	100	100	28	72
Publications	250	250	25	225
Auto allowance	1,620	1,620	1,620	-
Travel	4,000	4,000	1,342	2,658
Total city manager	<u>\$ 100,489</u>	<u>\$ 100,489</u>	<u>\$ 96,702</u>	<u>\$ 3,787</u>
Elections:				
Salaries	\$ 4,620	\$ 4,620	\$ 3,057	\$ 1,563
Office supplies	5,000	5,000	473	4,527
Publications	750	750	808	(58)
Total elections	<u>\$ 10,370</u>	<u>\$ 10,370</u>	<u>\$ 4,338</u>	<u>\$ 6,032</u>
Assessor:				
Salaries	\$ 42,595	\$ 46,095	\$ 45,753	\$ 342
Longevity	321	321	372	(51)
Office supplies	2,200	2,200	2,203	(3)
Auto allowance	500	500	-	500
Travel	1,000	1,000	642	358
Reassessment	-	2,975	2,972	3
Total assessor	<u>\$ 46,616</u>	<u>\$ 53,091</u>	<u>\$ 51,942</u>	<u>\$ 1,149</u>
City attorney:				
Salaries	\$ 75,238	\$ 75,238	\$ 75,074	\$ 164
Longevity	186	186	186	-
Office supplies	600	600	760	(160)
Publications	7,000	7,000	7,944	(944)
Contract services	2,000	32,000	25,896	6,104
Auto allowance	264	264	264	-
Travel	2,000	2,000	2,325	(325)
Total city attorney	<u>\$ 87,288</u>	<u>\$ 117,288</u>	<u>\$ 112,449</u>	<u>\$ 4,839</u>

CITY OF MENOMINEE, MICHIGAN

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CONTINUED
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Clerk/Treasurer:				
Salaries	\$ 149,281	\$ 149,281	\$ 147,858	\$ 1,423
Longevity	1,271	1,271	1,271	-
Office supplies	22,000	23,200	23,774	(574)
Postage	15,050	15,050	15,772	(722)
Equipment maintenance	8,000	8,000	8,498	(498)
Audit	13,000	14,325	14,325	-
Auto allowance	500	500	408	92
Travel	2,000	2,000	12	1,988
Lease/rental	5,112	5,112	5,100	12
Total clerk/treasurer	\$ 216,214	\$ 218,739	\$ 217,018	\$ 1,721
Board of review:				
Salaries	\$ 1,500	\$ 1,500	\$ 1,013	\$ 487
Office supplies	100	100	197	(97)
Publications	500	500	89	411
Total board of review	\$ 2,100	\$ 2,100	\$ 1,299	\$ 801
Building and grounds:				
Salaries	\$ 12,798	\$ 12,798	\$ 12,563	\$ 235
Longevity	589	589	589	-
Operating and building supplies	23,600	23,600	30,568	(6,968)
Equipment maintenance	12,000	12,000	3,153	8,847
Telephone	20,000	20,000	19,112	888
Electrical	31,600	31,600	27,888	3,712
Heat	16,150	16,150	18,316	(2,166)
Water	3,800	3,800	3,742	58
Total building & grounds	\$ 120,537	\$ 120,537	\$ 115,931	\$ 4,606
Fringe benefits	\$ 116,402	\$ 116,402	\$ 113,100	\$ 3,302
Total general government	\$ 720,366	\$ 759,366	\$ 727,139	\$ 32,227
Public safety:				
Police department:				
Salaries	\$ 806,696	\$ 815,696	\$ 814,764	\$ 932
Physical	6,000	6,000	4,762	1,238
Longevity	4,991	4,991	4,991	-
Operating supplies	9,500	14,400	15,727	(1,327)
Uniforms	7,700	7,700	7,055	645
Police lien	5,220	5,220	4,800	420
Travel	6,500	6,500	6,102	398
Equipment maintenance	20,000	26,000	27,070	(1,070)
Radio maintenance	4,500	4,500	4,112	388
Crossing guards	15,000	15,000	14,748	252
Auxiliary police supplies	1,500	1,500	1,379	121
Michigan Justice training fund	5,000	5,000	4,121	879
Gas, oil and grease	15,100	15,100	16,094	(994)
Total police department	\$ 907,707	\$ 927,607	\$ 925,725	\$ 1,882

CITY OF MENOMINEE, MICHIGAN

GENERAL FUND
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CONTINUED
 Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Fire department:				
Salaries	\$ 657,047	\$ 685,047	\$ 696,266	\$ (11,219)
Physical	6,000	6,000	4,313	1,687
Longevity	6,680	6,680	6,665	15
Miscellaneous labor	1,500	1,500	-	1,500
Office supplies	1,000	1,000	669	331
Subscriptions and dues	1,200	1,200	775	425
Building supplies	2,000	2,000	1,909	91
Operating supplies	15,500	15,500	16,190	(690)
Uniforms	4,500	4,500	4,579	(79)
Equipment maintenance	13,000	13,000	9,855	3,145
Radio maintenance	3,500	3,500	3,328	172
Telephone	-	-	50	(50)
Gas, oil and grease	2,100	2,100	1,390	710
Travel	8,000	8,000	1,982	6,018
Hydrant rental	53,044	53,044	53,044	-
Total fire department	\$ 775,071	\$ 803,071	\$ 801,015	\$ 2,056
Building inspector:				
Salaries	\$ 52,606	\$ 62,606	\$ 62,643	\$ (37)
Longevity	248	248	155	93
Operating supplies	2,000	2,000	1,071	929
Auto expense	1,680	1,680	1,680	-
Travel	1,200	1,200	633	567
Total building inspector	\$ 57,734	\$ 67,734	\$ 66,182	\$ 1,552
Zoning board of appeals:				
Salaries	\$ 200	\$ 200	\$ -	\$ 200
Publications	500	500	107	393
Total zoning board of appeals	\$ 700	\$ 700	\$ 107	\$ 593
Construction board:				
Salary	\$ 100	\$ 100	\$ -	\$ 100
Publication	100	100	-	100
Total construction board	\$ 200	\$ 200	\$ -	\$ 200
Animal control - Animal care	\$ 15,250	\$ 16,500	\$ 14,600	\$ 1,900
Other protection - Rescue squad	\$ 8,000	\$ 8,000	\$ -	\$ 8,000
Fringe benefits	\$ 557,666	\$ 557,666	\$ 540,004	\$ 17,662
Total public safety	\$2,322,328	\$2,381,478	\$2,347,633	\$ 33,845

CITY OF MENOMINEE, MICHIGAN

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CONTINUED
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Highways, streets and bridges:				
City engineer:				
Salaries	\$ 44,000	\$ 44,000	\$ 44,246	\$ (246)
Longevity	660	660	713	(53)
Office supplies	3,700	3,700	3,370	330
Dues	650	650	415	235
Operating supplies	3,600	3,600	4,371	(771)
Travel	1,500	1,500	1,560	(60)
Equipment maintenance	1,350	1,350	663	687
Auto expense	400	400	200	200
Total city engineer	<u>\$ 55,860</u>	<u>\$ 55,860</u>	<u>\$ 55,538</u>	<u>\$ 322</u>
Street lighting:				
Salaries	\$ 2,000	\$ 2,000	\$ 674	\$ 1,326
Outside labor	2,000	2,000	531	1,469
Operating supplies	4,000	4,000	1,003	2,997
Electric	105,000	105,000	95,800	9,200
Contracted services	-	-	550	(550)
Total street lighting	<u>\$ 113,000</u>	<u>\$ 113,000</u>	<u>\$ 98,558</u>	<u>\$ 14,442</u>
Alleys:				
Salaries	\$ 5,000	\$ 5,000	\$ 4,430	\$ 570
Operating supplies	3,500	3,500	1,700	1,800
Equipment rental	2,500	2,500	2,360	140
Total alleys	<u>\$ 11,000</u>	<u>\$ 11,000</u>	<u>\$ 8,490</u>	<u>\$ 2,510</u>
Non-motorized construction:				
Salaries	\$ 1,000	\$ 1,000	\$ 3,901	\$ (2,901)
Operating supplies	1,000	1,000	5,043	(4,043)
Contracted services	28,000	28,000	1,922	26,078
Total non-motorized construction	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 10,866</u>	<u>\$ 19,134</u>
Fringe benefits	<u>\$ 18,260</u>	<u>\$ 18,260</u>	<u>\$ 17,630</u>	<u>\$ 630</u>
Total highways, streets and bridges	<u>\$ 228,120</u>	<u>\$ 228,120</u>	<u>\$ 191,082</u>	<u>\$ 37,038</u>
Sanitation:				
Waste collection:				
Salaries	\$ 50,815	\$ 53,015	\$ 51,326	\$ 1,689
Longevity	186	186	-	186
Gas, oil and grease	4,500	4,500	5,031	(531)
Operating supplies	1,500	1,500	486	1,014
Equipment maintenance	6,000	9,000	9,450	(450)
Total waste collection	<u>\$ 63,001</u>	<u>\$ 68,201</u>	<u>\$ 66,293</u>	<u>\$ 1,908</u>
Rubbish collection:				
Salaries	\$ 28,000	\$ 28,000	\$ 26,541	\$ 1,459
Contract service	16,000	18,200	18,210	(10)
Total rubbish collection	<u>\$ 44,000</u>	<u>\$ 46,200</u>	<u>\$ 44,751</u>	<u>\$ 1,449</u>

CITY OF MENOMINEE, MICHIGAN

GENERAL FUND
SCHEDULE OF EXPENDITURES- BUDGET AND ACTUAL - CONTINUED
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Landfill:				
Salaries	\$ 150	\$ 150	\$ 25	\$ 125
Operating supplies	400	400	-	400
Contracted service	34,000	34,000	15,679	18,321
Landfill fees	146,750	146,750	147,248	(498)
Spring clean-up	15,000	15,000	15,013	(13)
Total landfill	\$ 196,300	\$ 196,300	\$ 177,965	\$ 18,335
Recycling:				
Salaries	\$ 2,200	\$ 2,200	\$ 1,320	\$ 880
Outside labor	23,000	23,000	22,923	77
Utilities	300	300	353	(53)
Operating supplies	750	750	390	360
Equipment rental	1,000	1,000	728	272
Total recycling	\$ 27,250	\$ 27,250	\$ 25,714	\$ 1,536
Fringe benefits	\$ 21,302	\$ 21,302	\$ 20,879	\$ 423
Total sanitation	\$ 351,853	\$ 359,253	\$ 335,602	\$ 23,651
Culture and recreation:				
Parks department:				
Salaries	\$ 64,996	\$ 64,996	\$ 51,785	\$ 13,211
Longevity	1,054	1,054	133	921
Special projects	3,000	3,000	145	2,855
Operating supplies	6,000	6,000	15,003	(9,003)
Building supplies	1,200	1,200	-	1,200
Equipment maintenance	4,470	4,470	4,020	450
Equipment rental	1,000	1,000	115	885
Gas, oil and grease	1,500	1,500	1,071	429
Utilities	16,000	16,000	15,425	575
Other	5,500	5,500	3,442	2,058
Total park department	\$ 104,720	\$ 104,720	\$ 91,139	\$ 13,581
Marina:				
Salaries	\$ 200	\$ 200	\$ -	\$ 200
Operating supplies	750	1,150	1,121	29
Total marina	\$ 950	\$ 1,350	\$ 1,121	\$ 229
Henes Park:				
Salaries	\$ 54,552	\$ 54,552	\$ 43,081	\$ 11,471
Longevity	434	434	434	-
Feed	1,500	1,500	1,305	195
Operating supplies	5,500	5,500	9,472	(3,972)
Equipment maintenance	4,000	4,000	1,725	2,275
Utilities	8,200	8,200	6,769	1,431
Gas, oil and grease	2,500	2,500	2,130	370
Special projects	1,000	1,000	469	531
Equipment rental	200	200	-	200
Total Henes Park	\$ 77,886	\$ 77,886	\$ 65,385	\$ 12,501

CITY OF MENOMINEE, MICHIGAN

GENERAL FUND
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CONTINUED
 Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
City recreation:				
Salaries	\$ 68,273	\$ 68,273	\$ 63,317	\$ 4,956
Longevity	217	217	217	-
Miscellaneous labor	985	985	1,455	(470)
Operating supplies	9,750	9,750	10,779	(1,029)
Auto expense	200	200	-	200
Gasoline and grease	650	650	713	(63)
Utilities	2,600	2,600	1,088	1,512
Travel	500	500	-	500
Equipment maintenance	1,500	1,500	951	549
Equipment rental	350	350	-	350
Other	6,000	6,000	5,866	134
Total city recreation	\$ 91,025	\$ 91,025	\$ 84,386	\$ 6,639
Fringe benefits	\$ 47,170	\$ 47,170	\$ 45,366	\$ 1,804
Total culture and recreation	\$ 321,751	\$ 322,151	\$ 287,397	\$ 34,754
Other functions:				
Community development:				
Miscellaneous labor	\$ 500	\$ 900	\$ 886	\$ 14
Office supplies	150	150	-	150
Postage	150	150	-	150
Publications	300	300	-	300
Demolition	-	7,550	7,850	(300)
Total community development	\$ 1,100	\$ 9,050	\$ 8,736	\$ 314
Economic development:				
Christmas decorations	\$ 4,000	\$ 4,000	\$ 3,342	\$ 658
Travel	1,000	1,000	467	533
Dues	7,626	7,626	7,558	68
Contracted services	10,000	10,000	850	9,150
Legal	2,000	2,000	3,337	(1,337)
Miscellaneous	3,000	3,000	6,912	(3,912)
Total economic development	\$ 27,626	\$ 27,626	\$ 22,466	\$ 5,160
Fixed expenses:				
Business insurance and bonds	\$ 56,000	\$ 56,000	\$ 51,951	\$ 4,049
Workmen's compensation	47,000	47,000	25,769	21,231
Unemployment compensation	1,500	1,500	5,127	(3,627)
Investment fees	2,000	2,000	-	2,000
County charge back	1,000	1,000	46	954
Employee assistance program	2,100	2,100	2,100	-
Total fixed expenses	\$ 109,600	\$ 109,600	\$ 84,993	\$ 24,607
Total other functions	\$ 138,326	\$ 146,276	\$ 116,195	\$ 30,081

CITY OF MENOMINEE, MICHIGAN

GENERAL FUND
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CONTINUED
 Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Capital outlay:				
Building and grounds	\$ 18,000	\$ 24,734	\$ 24,734	\$ -
Police Department	49,500	49,500	43,592	5,908
Parks Department	5,000	5,000	6,578	(1,578)
Street Department	150,000	150,000	73,531	76,469
Spies Field complex	-	-	22,380	(22,380)
Clerk/Treasurer	5,000	5,000	5,446	(446)
Recreation	5,000	5,000	-	5,000
Sidewalks	-	-	34,810	(34,810)
Circle Lane	-	-	72,181	(72,181)
Total capital outlay	<u>\$ 232,500</u>	<u>\$ 239,234</u>	<u>\$ 283,252</u>	<u>\$ (44,018)</u>
Debt service:				
Principal	\$ 83,388	\$ 83,388	\$ 96,155	\$ (12,767)
Interest	29,746	29,746	33,273	(3,527)
Total debt service	<u>\$ 113,134</u>	<u>\$ 113,134</u>	<u>\$ 129,428</u>	<u>\$ (16,294)</u>
Total expenditures	<u>\$4,428,378</u>	<u>\$4,549,012</u>	<u>\$4,417,728</u>	<u>\$ 131,284</u>

CITY OF MENOMINEE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2004

	Special Revenue Funds	Debt Service Street Construction	Capital Project Spies Field	Permanent Fund Cemetery Perpetual Care	Total
ASSETS:					
Cash and investments	\$1,071,147	\$ 39,043	\$ 130,998	\$1,201,199	\$2,442,387
Receivables - Notes	1,107,770	-	-	-	1,107,770
Due from other funds	93,948	352	105	3,150	97,555
Due from other governmental units	68,006	-	-	-	68,006
Prepaid expenses	1,200	-	-	-	1,200
TOTAL ASSETS	\$2,342,071	\$ 39,395	\$ 131,103	\$1,204,349	\$3,716,918
LIABILITIES:					
Accounts payable	\$ 11,251	\$ -	\$ -	\$ -	\$ 11,251
Accrued expense	6,870	-	-	-	6,870
Due to other funds	169,620	83	-	93,948	263,651
Due to other governmental units	85,826	-	-	-	85,826
Deferred revenue	106,541	-	-	-	106,541
Total liabilities	\$ 380,108	\$ 83	\$ -0-	\$ 93,948	\$ 474,139
FUND BALANCES					
Reserved	\$1,160,450	\$ 39,312	\$ -	\$1,110,401	\$2,310,163
Unreserved Undesignated	801,513	-	131,103	-	932,616
Total fund balance	\$1,961,963	\$ 39,312	\$ 131,103	\$1,110,401	\$3,242,779
TOTAL LIABILITIES AND FUND BALANCE	\$2,342,071	\$ 39,395	\$ 131,103	\$1,204,349	\$3,716,918

CITY OF MENOMINEE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2004

	Special Revenue Funds	Debt Service Street Construction	Capital Project Spies Field	Permanent Fund Cemetery Perpetual Care	Total
Revenue:					
Taxes	\$ 7,112	\$ 243,853	\$ -	\$ -	\$ 250,965
Intergovernmental	81,624	-	-	-	81,624
Charges for services	88,154	-	-	13,815	101,969
Fines and forfeits	71,024	-	-	-	71,024
Other	212,207	432	31,103	9,298	253,040
Total revenues	\$ 460,121	\$ 244,285	\$ 31,103	\$ 23,113	\$ 758,622
Expenditures:					
Public safety	\$ 7,161	\$ -	\$ -	\$ -	\$ 7,161
Culture and recreation	708,949	-	-	-	708,949
Other functions	79,787	-	-	7,145	86,932
Debt service	-	255,000	-	-	255,000
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	160,493	-	-	160,493
Total expenditures	\$ 795,897	\$ 415,493	\$ -0-	\$ 7,145	\$1,218,535
Excess (deficiency) revenue over expenditures	\$ (335,776)	\$ (171,208)	\$ 31,103	\$ 15,968	\$ (459,913)
Other financial sources (uses):					
Operating transfers in	\$ 347,635	\$ 151,463	\$ -	\$ -	\$ 499,098
Operating transfers out	-	-	-	(47,906)	(47,906)
Total other financial sources (uses)	\$ 347,635	\$ 151,463	\$ -0-	\$ (47,906)	\$ 451,192
Net changes in fund balances	\$ 11,859	\$ (19,745)	\$ 31,103	\$ (31,938)	\$ (8,721)
Fund balances - Beginning of year	1,950,104	59,057	100,000	1,142,339	3,251,500
Fund balances - End of year	\$1,961,963	\$ 39,312	\$ 131,103	\$1,110,401	\$3,242,779

CITY OF MENOMINEE, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2004

	<u>Cemetery Operations</u>	<u>Spies Public Library</u>	<u>Downtown Development Authority</u>	<u>Community Development</u>	<u>Neighborhood Preservation Project</u>
ASSETS:					
Cash and investments	\$ 30,883	\$ 118,150	\$ 192,949	\$ 69,392	\$ 13,474
Receivables - Notes	-	-	-	86,339	85,826
Due from other funds	93,948	-	-	-	-
Due from other governmental units	-	68,006	-	-	-
Prepaid expenses	-	-	-	-	-
TOTAL ASSETS	\$ 124,831	\$ 186,156	\$ 192,949	\$ 155,731	\$ 99,300
LIABILITIES:					
Accounts payable	\$ 866	\$ 551	\$ -	\$ 9,834	\$ -
Accrued payroll	3,397	3,473	-	-	-
Due to other funds	54,821	91,018	3,545	4,271	13,474
Due to other governmental units	-	-	-	-	85,826
Deferred revenue	-	5,327	-	86,339	-
Total liabilities	\$ 59,084	\$ 100,369	\$ 3,545	\$ 100,444	\$ 99,300
FUND BALANCES:					
Reserved	\$ 12,850	\$ 21,391	\$ 189,404	\$ -	\$ -
Unreserved					
Undesignated	52,897	64,396	-	55,287	-
Total fund balance	\$ 65,747	\$ 85,787	\$ 189,404	\$ 55,287	\$ -0-
TOTAL LIABILITIES AND FUND BALANCE	\$ 124,831	\$ 186,156	\$ 192,949	\$ 155,731	\$ 99,300

<u>Economic Development Iron Works</u>	<u>Economic Development Millworks</u>	<u>Economic Development GLPF</u>	<u>Water Front Festival</u>	<u>Drug Enforcement</u>	<u>Public Improvement</u>	<u>Total</u>
\$ 93,449	\$ 112,443	\$ 1,000	\$ 25,623	\$ 16,841	\$ 396,943	\$1,071,147
880,606	54,999	-	-	-	-	1,107,770
-	-	-	-	-	-	93,948
-	-	-	-	-	-	68,006
-	-	-	1,200	-	-	1,200
<u>\$ 974,055</u>	<u>\$ 167,442</u>	<u>\$ 1,000</u>	<u>\$ 26,823</u>	<u>\$ 16,841</u>	<u>\$ 396,943</u>	<u>\$2,342,071</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,251
-	-	-	-	-	-	6,870
-	-	500	1,991	-	-	169,620
-	-	-	-	-	-	85,826
-	-	-	14,875	-	-	106,541
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 500</u>	<u>\$ 16,866</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 380,108</u>
\$ 880,606	\$ 54,999	\$ -	\$ 1,200	\$ -	\$ -	\$1,160,450
93,449	112,443	500	8,757	16,841	396,943	801,513
<u>\$ 974,055</u>	<u>\$ 167,442</u>	<u>\$ 500</u>	<u>\$ 9,957</u>	<u>\$ 16,841</u>	<u>\$ 396,943</u>	<u>\$1,961,963</u>
<u>\$ 974,055</u>	<u>\$ 167,442</u>	<u>\$ 1,000</u>	<u>\$ 26,823</u>	<u>\$ 16,841</u>	<u>\$ 396,943</u>	<u>\$2,342,071</u>

CITY OF MENOMINEE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 Year Ended June 30, 2004

	<u>Cemetery Operations</u>	<u>Spies Public Library</u>	<u>Downtown Development Authority</u>	<u>Community Development</u>	<u>Neighborhood Preservation Project</u>
Revenue:					
Taxes	\$ -	\$ -	\$ 7,112	\$ -	\$ -
Intergovernmental	-	16,668	-	64,956	-
Charges for services	81,644	6,510	-	-	-
Fines and forfeits	-	71,024	-	-	-
Other	<u>1,950</u>	<u>7,921</u>	<u>1,612</u>	<u>48,663</u>	<u>-</u>
Total revenues	<u>\$ 83,594</u>	<u>\$ 102,123</u>	<u>\$ 8,724</u>	<u>\$ 113,619</u>	<u>\$ -0-</u>
Expenditures:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -
Culture and recreation	186,452	394,901	-	-	-
Other functions	<u>-</u>	<u>-</u>	<u>12,185</u>	<u>66,566</u>	<u>-</u>
Total expenditures	<u>\$ 186,452</u>	<u>\$ 394,901</u>	<u>\$ 12,185</u>	<u>\$ 66,566</u>	<u>\$ -0-</u>
Excess (deficiency) revenue over expenditures	<u>\$ (102,858)</u>	<u>\$ (292,778)</u>	<u>\$ (3,461)</u>	<u>\$ 47,053</u>	<u>\$ -0-</u>
Other financial sources (uses):					
Operating transfers in	<u>\$ 72,906</u>	<u>\$ 266,229</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total other financial sources (uses)	<u>\$ 72,906</u>	<u>\$ 266,229</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Net changes in fund balances	<u>\$ (29,952)</u>	<u>\$ (26,549)</u>	<u>\$ (3,461)</u>	<u>\$ 47,053</u>	<u>\$ -</u>
Fund balances - Beginning of year	<u>95,699</u>	<u>112,336</u>	<u>192,865</u>	<u>8,234</u>	<u>-</u>
Fund balances - End of year	<u>\$ 65,747</u>	<u>\$ 85,787</u>	<u>\$ 189,404</u>	<u>\$ 55,287</u>	<u>\$ -0-</u>

<u>Economic Development Iron Works</u>	<u>Economic Development Millworks</u>	<u>Economic Development GLPF</u>	<u>Water Front Festival</u>	<u>Drug Enforcement</u>	<u>Public Improvement</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,112
-	-	-	-	-	-	81,624
-	-	-	-	-	-	88,154
-	-	-	-	-	-	71,024
<u>22,206</u>	<u>881</u>	<u>-</u>	<u>113,250</u>	<u>12,379</u>	<u>3,345</u>	<u>212,207</u>
\$ <u>22,206</u>	\$ <u>881</u>	\$ <u>-0-</u>	\$ <u>113,250</u>	\$ <u>12,379</u>	\$ <u>3,345</u>	\$ <u>460,121</u>
\$ -	\$ -	\$ -	\$ -	\$ 7,161	\$ -	\$ 7,161
-	-	-	127,596	-	-	708,949
<u>1,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,787</u>
\$ <u>1,036</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>127,596</u>	\$ <u>7,161</u>	\$ <u>-0-</u>	\$ <u>795,897</u>
\$ <u>21,170</u>	\$ <u>881</u>	\$ <u>-0-</u>	\$ <u>(14,346)</u>	\$ <u>5,218</u>	\$ <u>3,345</u>	\$ <u>(335,776)</u>
\$ -	\$ -	\$ -	\$ 8,500	\$ -	\$ -	\$ 347,635
\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>8,500</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>347,635</u>
\$ 21,170	\$ 881	\$ -	\$ (5,846)	\$ 5,218	\$ 3,345	\$ 11,859
<u>952,885</u>	<u>166,561</u>	<u>500</u>	<u>15,803</u>	<u>11,623</u>	<u>393,598</u>	<u>1,950,104</u>
\$ <u>974,055</u>	\$ <u>167,442</u>	\$ <u>500</u>	\$ <u>9,957</u>	\$ <u>16,841</u>	\$ <u>396,943</u>	\$ <u>1,961,963</u>

CITY OF MENOMINEE, MICHIGAN

NONMAJOR PROPRIETARY FUNDS
 COMBINING STATEMENT OF NET ASSETS
 June 30, 2004

	River Park	Industrial Aid	Total
ASSETS:			
Cash and investments	\$ 245,650	\$ -	\$ 245,650
Due from other funds	-	32,083	32,083
Capital assets			
Land	92,677	335,718	428,395
Buildings	572,529	-	572,529
Improvements other than buildings	381,363	-	381,363
Machinery and equipment	75,000	-	75,000
Accumulated depreciation	(308,216)	-	(308,216)
TOTAL ASSETS	<u>\$1,059,003</u>	<u>\$ 367,801</u>	<u>\$1,426,804</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 98	\$ -	\$ 98
Accrued payroll	1,013	-	1,013
Due to other funds	12,429	-	12,429
TOTAL LIABILITIES	<u>\$ 13,540</u>	<u>\$ -0-</u>	<u>\$ 13,540</u>
NET ASSETS:			
Investment in capital assets net of related debt	\$ 813,354	\$ 335,718	\$1,149,072
Unrestricted	232,109	32,083	264,192
TOTAL NET ASSETS	<u>\$1,045,463</u>	<u>\$ 367,801</u>	<u>\$1,413,264</u>

CITY OF MENOMINEE, MICHIGAN

NONMAJOR PROPRIETARY FUNDS
 COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 Year Ended June 30, 2004

	River Park	Industrial Aid	Total
Operating revenue			
Other	\$ 96,211	\$ 3,000	\$ 99,211
Total operating revenue	<u>\$ 96,211</u>	<u>\$ 3,000</u>	<u>\$ 99,211</u>
Operating expense			
Operation and maintenance	\$ 71,195	\$ 688	\$ 71,883
Depreciation	34,095	-	34,095
Total operating expense	<u>\$ 105,290</u>	<u>\$ 688</u>	<u>\$ 105,978</u>
Operating income (loss)	<u>\$ (9,079)</u>	<u>\$ 2,312</u>	<u>\$ (6,767)</u>
Nonoperating revenue (expense)			
Interest revenue	\$ 1,820	\$ -	\$ 1,820
Total nonoperating revenue (expense)	<u>\$ 1,820</u>	<u>\$ -0-</u>	<u>\$ 1,820</u>
Change in net assets	<u>\$ (7,259)</u>	<u>\$ 2,312</u>	<u>\$ (4,947)</u>
Net assets - Beginning of year	<u>1,052,722</u>	<u>365,489</u>	<u>1,418,211</u>
Net assets - End of year	<u>\$1,045,463</u>	<u>\$ 367,801</u>	<u>\$1,413,264</u>

CITY OF MENOMINEE, MICHIGAN

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2004

	River Park	Industrial Aid	Total
Cash flows from operating activities:			
Cash received from customers	\$ 96,211	\$ 3,000	\$ 99,211
Cash paid to suppliers	(39,317)	(2,116)	(41,433)
Cash paid to employees	(29,667)	-	(29,667)
Net cash provided by operating activities	<u>\$ 27,227</u>	<u>\$ 884</u>	<u>\$ 28,111</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	\$ -	\$ (884)	\$ (884)
Net cash (used) by capital and related financing activities	<u>\$ -0-</u>	<u>\$ (884)</u>	<u>\$ (884)</u>
Cash flows from investing activities:			
Interest received on investments	\$ 1,820	\$ -	\$ 1,820
Net increase in cash and cash equivalents	\$ 29,047	\$ -	\$ 29,047
Cash and cash equivalents - Beginning of year	216,603	-	216,603
Cash and cash equivalents - End of year	<u>\$ 245,650</u>	<u>\$ -0-</u>	<u>\$ 245,650</u>
Reconciliation of cash equivalents to the combining balance sheet			
Unrestricted cash and investments	\$ 245,650	\$ -	\$ 245,650
Total cash and cash equivalents	<u>\$ 245,650</u>	<u>\$ -0-</u>	<u>\$ 245,650</u>
Reconciliation of operating income to net cash provided (used) by operating activities			
Cash provided (used) by operating activities			
Operating income (loss)	\$ (9,079)	\$ 2,312	\$ (6,767)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	34,095	-	34,095
Changes in assets and liabilities			
Due from other funds	-	(1,428)	(1,428)
Accounts payable	(811)	-	(811)
Accrued expenses	196	-	196
Due to other funds	2,826	-0-	2,826
Net cash provided by operating activities	<u>\$ 27,227</u>	<u>\$ 884</u>	<u>\$ 28,111</u>

CITY OF MENOMINEE, MICHIGAN

PENSION TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2004

	Police and Fire Retirement	Employee Flexible Benefits	Total
ASSETS:			
Cash and investments	\$8,823,009	\$ 1,397	\$8,824,406
TOTAL ASSETS	<u>\$8,823,009</u>	<u>\$ 1,397</u>	<u>\$8,824,406</u>
LIABILITIES:			
Due to other funds	\$ -	\$ 2,477	\$ 2,477
TOTAL LIABILITIES	<u>\$ -0-</u>	<u>\$ 2,477</u>	<u>\$ 2,477</u>
NET ASSETS:			
Reserved for employee's retirement system	\$8,823,009	\$ -	\$8,823,009
Reserved for employee's benefit	-	(1,080)	(1,080)
TOTAL NET ASSETS	<u>\$8,823,009</u>	<u>\$ (1,080)</u>	<u>\$8,821,929</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$8,823,009</u>	<u>\$ 1,397</u>	<u>\$8,824,406</u>

CITY OF MENOMINEE, MICHIGAN

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2004

	Police and Fire Retirement	Employee Flexible Benefits	Total
Additions			
Contributions			
Employees	\$ 75,443	\$ 9,491	\$ 84,934
Employer	91,467	-	91,467
Investment revenue	705,690	-	705,690
Total additions	\$ 872,600	\$ 9,491	\$ 882,091
Deductions			
Annuities	\$ 389,669	\$ -	\$ 389,669
Benefits	-	9,804	9,804
Total deductions	\$ 389,669	\$ 9,804	\$ 399,473
Change in net assets	\$ 482,931	\$ (313)	\$ 482,618
Net assets - Beginning of year	8,340,078	(767)	8,339,311
Net assets - End of year	\$8,823,009	\$ (1,080)	\$8,821,929

ADDITIONAL INDEPENDENT AUDITOR'S REPORT
FOR BASIC FINANCIAL STATEMENTS



HENQUINET, UNGER & WALTERS, S.C.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members
of the City Council
City of Menominee
Menominee, MI 49858

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Menominee, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of Menominee, Michigan's basic financial statements and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Menominee, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of City of Menominee, Michigan in a separate letter dated October 15, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Menominee, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain matters that we reported to management of City of Menominee, Michigan in a separate letter dated October 15, 2004.

This report is intended solely for the information and use of the Finance committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Henquinet Unger & Walters S.C.
HENQUINET, UNGER & WALTERS, S.C.

Marinette, WI
October 15, 2004

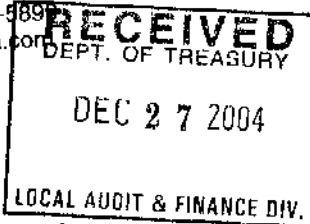
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October 15, 2004

To the Finance Committee and City Manager
City of Menominee
2511 Tenth Street
Menominee, MI 49858

In planning and performing our audit of the financial statements of the City of Menominee, for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion of the financial statements and not to provide assurance on the internal control. However we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgement, could adversely affect the City of Menominee's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cash Receipts

Mail

The mail is received by one employee; that person separates the mail, and delivers the unopened mail to department heads.

We recommend that the person who receives the mail should open the mail and list the checks received, preferably on a prescribed form, before turning them over to department heads. This list may be subsequently compared to the cash book and bank deposits. This comparison should be made by someone independent of the Accounting department.

Cash Collection

Collection of cash should be centralized as much as possible, with the Treasurer's office. It was determined that the Police department, Recreation department and Building Inspector department are collecting cash and issuing receipts for their own collection.

We recommend that the collection of cash for these departments be done by the Treasurer's office.

Accounts Payable

Accounts payable is recorded on a monthly basis, but a daily accounts payable is not maintained on the computer system.

We recommend that accounts payable system be maintained on the computer on a daily or weekly basis. Having the accounts payable on the accounting system would be an effective management tool for payment of bill.

Purchase Order - Encumbrance System

An encumbrance system is a very good measurement tool for projecting the City's expenditures and comparing expenditures to budget, 30 to 60 days prior to the actual recording of the expenditure.

We recommend that the encumbrance system be implemented.

Delinquent Personal Property Tax Receivables

Delinquent personal property tax is being maintained for many years. If personal property taxes are not collectible they should be written off.

We recommend that the old personal property taxes be written off.

Issuance of Checks/Segregation of Duties

After invoices are approved by department heads for payment, an employee processes the invoice for payment, entering the invoice into the accounting system and generating a check for payment. The invoice is given to the Finance Committee for approval. After approval the checks are sent out by the same employee for mailing.

We recommend that after approval by the Finance Committee, the check be given to an employee that is independent of the Accounting department for mailing.

Chart of Accounts/Classification of Expenditures

Expenditures for hospital insurance, retirement and social security are being classified to the expenditure function Other - fixed expenses.

We recommend the fixed expense should be classified to actual expenditure function that incurred to the expenditures.

Journal Entries

Numerous journal entries are made during the year. These journal entries are not maintained in one central file and not approved by Clerk/Treasurer.

We recommend that a file be maintained for all journal entries, and a number be given to each entry. Also the Clerk/Treasurer must approve all adjustments.

Electronic Funds Transfers

Electronic funds transfer are done for transfers between bank accounts, payroll deposits and retirement payments. The Clerk/Treasurer should approve all transfers.

We recommend, that a prescribed form be made with approval by the Clerk/Treasurer and be maintained in a separate file.

Menominee Housing Commission

It was determined the Housing Commission is not a component unit of the City of Menominee. The employees of the Housing Commission are treated as if they are employees of the City.

We recommend that management determine if Housing Commission employees are employees of the City.

Accounting System

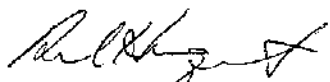
Accounting problems were noted in the accounts payable system, water and wastewater billing system and implementation of the encumbrance system.

We recommend that a review of the present accounting system be made to determine if the system should be updated or replaced.

This report is intended solely for the information and use of the Finance Committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

HENQUINET, UNGER & WALTERS, S.C.



Del W. Henquinet, CPA

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